Chapter 2

General Institutional Responsibilities

Summary

This chapter discusses the broad range of responsibilities of schools participating in the U.S. Department of Education's (ED's) Title IV student financial aid programs (Title IV programs). It presents information about institutional fiscal operations and network of responsibilities; institutional eligibility; financial responsibility; administrative capability (including separation of functions); and other areas such as consumer information, institutional policies and procedures, program evaluation, return of Title IV funds, record maintenance, and disclosing student information.

Key Terms*

administrative capability

allowable charges

Application for Approval to Participate in Federal Student Financial Aid Programs

approval letter

Campus Security Act

Catalog of Federal Domestic Assistance (CFDA)

composite score

Debt Collection Service (DCS)

earned aid

Eligibility and Certification Approval Report (ECAR)

Equity in Athletics Disclosure Act (EADA)

equity ratio

experimental site

Family Education Rights and Privacy Act of 1974 (FERPA)

financial responsibility

institutional charges

leave of absence (LOA)

letter-of-credit alternative

Modernization Blueprint

net income ratio

90/10 rule

overpayment

post-withdrawal disbursement

primary reserve ratio

Program Participation Agreement (PPA)

provisional certification alternative

Quality Assurance Tools (QAT)

return of Title IV funds

Student Right-To-Know (SRK) Act

unearned aid

withdrawal date

zone alternative

***Key terms are in boldface type when they first appear in the text.**

2.1 Overview of Fiscal Operations and the Network of Responsibilities

Reference:
- 34 CFR 600
- 34 CFR 668, Subparts B, L
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

The term "fiscal operations" encompasses a broad range of processes. For Title IV programs, these include, but are not limited to:

- requesting funds from the federal government,
- disbursing funds to eligible students and parents,
- keeping accurate and auditable financial records,
- managing cash,
- accounting for funds and financial activities, *and*
- reporting on these activities.

Schools organize and manage their fiscal operations differently, depending on such factors as the size of the school, administrative structure, staffing, automation, and federal program participation. Although fiscal operations can vary from school to school, successfully managing Title IV programs at any school depends on coordinated efforts across institutional offices.

Coordination has become increasingly important as automated systems have replaced paper-based ones. Automated systems bring many benefits, such as enhanced data integrity and speedy data exchange. However, they also present challenges; the most critical, perhaps, is that automation can blur responsibility for functions that, by law, must be kept separate, such as authorizing and disbursing financial aid awards.

Managing Title IV Programs

Managing Title IV financial aid is an institution-wide responsibility. The entire school benefits from Title IV programs, so all offices at a school need to work together. However, managing Title IV programs includes three main functional areas:

- the administrative (president's) office,
- the financial aid office, *and*
- the business (bursar's) office.

As mentioned earlier in this chapter, schools differ in how they divide these functions among administrative offices. However, the president's office, the financial aid office, and the business office always play key roles.

The Administrative (President's) Office

Responsibility for overall administration resides with the school's president, chancellor, or chief executive officer (CEO). The leadership and management style of the person in this position sets the tone and direction of the financial aid program for the entire institution.

Although authority and responsibility are delegated to other offices, the leadership and support of the CEO / president are crucial to successfully administering Title IV programs. By recognizing the importance of federal aid programs, making Title IV program administration a high priority, and holding key officials accountable, CEO / president leadership can foster an environment that promotes an effective and responsive financial aid program that meets institutional goals, students' needs, and federal requirements.

The checklist on the next page lists the legal responsibilities of the CEO / president.

The CEO/President must ensure that a school...

- is financially responsible to administer Title IV programs
- is administratively capable of administering Title IV programs
- has a capable individual to administer Title IV programs and coordinate federal and nonfederal financial aid programs
- has an adequate number of qualified staff to administer Title IV programs
- has a procedure to report changes to ED about the school's current eligibility status (for example, change in ownership, address, name, officials, third-party servicers, and so on)
- has a procedure to ensure that Title IV funds for new programs and locations are not disbursed until approvals (when required) are received from ED
- has established clear lines of responsibility among the pertinent school offices
- has good communication and cooperation among personnel in the pertinent school offices
- maintains effective record-keeping systems for both student records *and* financial records
- has an adequate system of checks and balances to ensure separation of award functions from disbursement functions
- has accurate information about student applicants for Title IV aid and resolves any discrepancies or inconsistencies
- provides adequate financial aid and loan debt management counseling to students
- refers any suspected cases of Title IV fraud, abuse, or misrepresentation to ED's Office of Inspector General (OIG)
- obtains a letter of credit (if the school has failed to meet the standards of financial responsibility)[1]
- has an independent auditor perform an annual nonfederal audit of the school's Title IV financial operations[2]
- cooperates fully with any program reviews or audits and makes available all necessary information to the reviewers or auditors
- has no criminal or fraudulent activities occur as it manages federal funds *and* administers Title IV programs
- has established reasonable standards of satisfactory academic progress (SAP) for students
- has established a fair and equitable institutional refund policy (if required by the school's accrediting agency)
- has an operable and accessible drug-abuse prevention program, as required by the Drug-Free Schools and Communities Act
- is a drug-free workplace, as required by the Drug-Free Workplace Act
- makes available all published information required by the Student Right-to-Know Act and the Campus Security Act and any other pertinent laws and regulations
- provides the services described in its publications

1. This letter of credit (LOC) is an ED requirement if the school fails to meet the standards of **financial responsibility**. A school would obtain the LOC from a bank or other financial institution in the amount of Title IV program funds the school received during its most recently completed fiscal year. If it is a new school, the LOC would be 50 percent of the amount of Title IV program funds ED expects the school to receive during its initial year. The LOC would be payable to ED, and ED would draw on the LOC if there is cause. While the school may contest ED's action to draw LOC funds, ED holds these funds while the school protest is processed. Although ED no longer requires a school to obtain a fidelity bond, the school may choose to obtain one as a good business practice to protect itself against improper actions of employees, board members, and so on.
2. If a school disburses less than $200,000 in Title IV funds annually in each of the two award years prior to the audit period, ED may authorize it to have audits every three years if the school submits a letter of credit for not less than 10 percent of the amount of Title IV program funds the institution disbursed during the award year preceding the institution's waiver request. [See 34 CFR 668.27(D).] In addition, schools that are subject to the rules under the A-133 audit and have under $300,000 in Title IV funds are completely exempt from an annual audit. However, if the schools have audited financial statements done for them, ED can ask for the audits.

The Financial Aid Office

While a school's financial aid office assumes most of the responsibility for administering Title IV programs, its role in the institution's fiscal operation is usually a limited one. See the checklist below for a list of functions carried out by financial aid administrators.

Common responsibilities assigned to a school's financial aid office:

- ❑ Advise and counsel students and parents about financial aid
- ❑ Provide students with consumer information, as required by federal regulations
- ❑ Develop written policies and procedures about the way the school administers Title IV programs
- ❑ Determine students' eligibility for financial aid
- ❑ Make financial aid awards to students, but not disburse the funds
- ❑ Adhere to the principle of separation of functions (no single office or individual may authorize payments *and* disburse Title IV funds to students)
- ❑ In administering financial aid programs, coordinate financial aid activities with those of other school offices
- ❑ Interact with various outside groups, agencies, associations, and individuals about issues concerning the school's administration of financial aid programs
- ❑ Monitor students' satisfactory academic progress (SAP)
- ❑ Maintain school records *and* student records that document activities of the financial aid office and provide data for reports
- ❑ Keep current on changes in laws and regulations to ensure that the school remains in compliance
- ❑ Assist in reporting Pell Grant expenditures
- ❑ Manage and report on activities that involve financial aid funds
- ❑ Calculate the return of Title IV funds and, if it applies, authorize post-withdrawal disbursements to students[1]
- ❑ Assist in reconciling loan records (for schools that participate in the Direct Loan Program)
- ❑ Reconcile student financial aid data provided to the business office to ensure that all payments have been made, return of Title IV funds have been accounted for, and expenditures have been reported
- ❑ Have a procedure to report any changes to ED about the school's current eligibility status (for example, change in ownership, address, name, officials, third-party servicers, and so on)
- ❑ Have a procedure to ensure Title IV funds for new programs and locations are not disbursed until the approvals (when required) are received from ED
- ❑ Perform (limited) fiscal operations, such as:
  - authorizing payment of Title IV funds to student accounts or to students directly
  - authorizing return of Title IV funds to program accounts and post-withdrawal disbursements to students
  - notifying a student who owes an overpayment as a result of the student's withdrawal from the school in order for ED or the school to recover the overpayment
  - notifying ED of the overpayment
  - coordinating submission of the Fiscal Operations Report and Application to Participate (FISAP)
- ❑ Provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the award and delivery process[2]
- ❑ Provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the award and delivery process[2]

1. At some schools, the business office performs this function.
2. At some schools, these activities are performed by the business office. See page 2-7.

The Business (Bursar's) Office

Title IV-related fiscal operations are handled by an institution's business office. This office may go by another name—fiscal office, finance office, comptroller's office, bursar's office, treasurer's office, or student accounts office. For the duration of this book, this office will be referred to simply as "the fiscal office" or "the business office."

The business office provides critical services to the school in managing both federal and nonfederal financial aid programs. Maintaining accounting, recordkeeping, and reporting functions related to the institution's use of federal and other funds requires many detailed, complex systems. Strong internal controls and sound business and financial management practices are keys to the success of these operations and delivering funds to students.

The checklist on the next page lists some of the common responsibilities of the fiscal office.

Common responsibilities assigned to a school's business office:

- ❑ Coordinate activities and cooperate with the financial aid office in:
  - projecting cash flow needed to cover disbursements
  - processing cancellations and institutional refunds
  - obtaining authorization to pay Title IV funds
  - being aware of the changes in Title IV laws and regulations
  - submitting accurate and timely reports
  - reconciling with the financial aid office to ensure that all financial aid adjustments have been properly recorded
- ❑ Maintain a system of internal controls that includes adequate checks and balances
- ❑ Ensure that the functions of authorizing and disbursing Title IV funds remain separate
- ❑ Maintain records according to federal and generally accepted accounting procedures (GAAP)
- ❑ Maintain records to ensure a clear audit trail
- ❑ Draw down and return Title IV funds to program accounts
- ❑ Disburse funds to eligible students from Title IV program accounts
- ❑ Maintain a system of student accounts that records changes, credits, and amounts due (if the school uses individual student accounts)
- ❑ Collect Federal Perkins Loans[1]
- ❑ Calculate the return of Title IV funds, and if it applies, authorize post-withdrawal disbursements to students[2]
- ❑ Establish and implement the institution's refund policy (if required by the school's accrediting or state agency)[2]
- ❑ Establish and monitor Federal Work-Study (FWS) payroll and time sheets
- ❑ Process return of Title IV funds to program accounts and post-withdrawal disbursements to students according to the applicable federal laws and regulations
- ❑ Assist in reporting Title IV expenditures to ED in a timely manner
- ❑ Reconcile accounts, including:
  - reconciling cash between school records and bank statements
  - reconciling federal funds between bank statements and federally reported balances
- ❑ Assist in completing applications and fiscal reports for federal funds
- ❑ Maintain a cash management system to meet disbursement requirements and federal laws and regulations
- ❑ Provide general stewardship for federal funds, including maintaining bank accounts and investments as appropriate
- ❑ Prepare for and participate in Title IV program reviews and audits
- ❑ Provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the disbursement process[2]
- ❑ Provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the disbursement process[3]

1. At some schools, a separate student loan office collects these loans.
2. At some schools, the financial aid office performs this function.
3. At some schools, these activities are performed by the financial aid office (see page 2-5). In addition, the business office may be responsible for administering other aspects of the Federal Perkins Loan Program. While the financial aid office may be responsible for awarding Perkins Loan funds, the business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, canceling loans, and reporting Perkins Loans to NSLDS.

Merging Responsibilities

To ensure that all functions are carried out for each Title IV aid program, each office within your school has certain responsibilities. To illustrate this network of responsibilities, consider the relatively routine activity of managing Federal Work-Study (FWS) Program time sheets for student employees. For example, the financial aid office typically authorizes FWS awards and monitors student earnings to make sure students have not exceeded their authorized award amount. In this scenario, the business office processes payroll and monitors the school's nonfederal share of FWS to ensure the school is adequately matching the federal share.

Reference

- 34 CFR 668.16(c)(2)

> ***Remember, by law, no single office or individual can both authorize and disburse federal student financial aid funds, nor can the individuals be members of the same family.***

Your process probably demonstrates a similar interdependence of various offices at your school. To further demonstrate this principle, try completing the FWS questionnaire on the next page as it applies to your school.

Network of Responsibilities—FWS Questionnaire

1) The Federal Work-Study (FWS) Program time sheet requires oversight certification.

- Who is authorized to certify that a student's work was performed in a satisfactory manner?________
____

2) Students must remain eligible from one term to the next.

- Who monitors student eligibility and academic progress?___________________________________

3) Some eligibility requirements are school policies.

- Who develops these policies for the school?____

4) Students are paid their wages on the basis of their time sheets.

- Who collects the time sheets from students? ____
- Who processes the payroll? ____
- Who reconciles the payroll to the time sheets ?____

5) Students may only earn up to the amount of their authorized FWS awards.

- Who determines the amount of the award?____
- Who monitors students' earnings to ensure they do not earn more than that amount? _________

6) All schools are required to spend at least 7 percent of the federal allocation of their FWS funds to employ students in community-service positions.

- Who locates and develops these jobs ?____
- Who monitors the percentage of funds used for these jobs? _________________________________

7) Student earnings are part of the institution's overall FWS budget.

- Who develops the budget? ____
- Who monitors expenditures ?____

8) Schools that receive FWS funds are required to apply for those funds and to report to ED on the use of those funds.

- Who completes the application?____
- Who completes the report?____

2.2 Institutional Eligibility

Reference:
- *Student Financial Aid Handbook: Volume 2 Institutional Eligibility*

To participate in any Title IV program(s), an institution must:

- meet the standards for an eligible institution,
- demonstrate that it meets Title IV financial responsibility requirements,
- demonstrate that it is administratively capable of managing Title IV programs,
- enter into a written **Program Participation Agreement (PPA)** with ED, *and*
- be certified to participate in Title IV programs.

Reference:
- 34 CFR 600.7

Some conditions that could cause an eligible institution to become ineligible are:

- more than 50 percent of the institution's courses are correspondence courses;
- 50 percent or more of the institution's regular enrolled students are enrolled in correspondence courses;
- more than 25 percent of the institution's regular enrolled students are incarcerated;
- more than 50 percent of its regular enrolled students have neither a high school diploma nor a recognized equivalent of a high school diploma, and the school does not provide a four-year educational program for which it awards a bachelor's degree or a two-year program for which it awards an associate degree; *or*
- the institution (or an affiliate of the institution that has the power by contract or ownership interest) files for relief in bankruptcy; or has entered against it an order for relief in bankruptcy; or the institution, its owner, or its CEO has pled guilty to, has pled *nolo contendere* to, or is found guilty of a crime involving the acquisition, use, or expenditure of Title IV program funds or has been judicially determined to have committed fraud involving Title IV program funds.

Types of Eligible Institutions

Reference:
- 34 CFR 600.4 – 600.6

The Higher Education Act of 1965, as amended (HEA), defines three types of postsecondary institutions that are eligible to participate in Title IV programs:

- institutions of higher education,

- ♦ proprietary institutions of higher education, *and*
- ♦ postsecondary vocational institutions.

A public or private, nonprofit school can fall into more than one category. However, a proprietary school cannot fall into more than one category. The type of institution is defined mainly by how the school is controlled (public, private, for-profit, nonprofit) and by the minimum program length offered by the school. Proprietary institutions have an additional eligibility requirement called the **"90/10" rule**.

90/10 Rule

The 90/10 rule means that no more than 90 percent of a proprietary institution's revenue in a fiscal year may be derived from Title IV program funds; at least 10 percent must come from non-Title IV funds. Federal funding that is not from Title IV funds may be included in the 10 percent.

- ♦ A proprietary institution that determines it satisfied the 90/10 rule during its most recently completed fiscal year must have the auditor preparing its audited financial statement verify and attest to the accuracy of that determination. This is done in a footnote to the audited financial statement.
- ♦ When schools do not satisfy this requirement, they must report this directly to ED within 90 days of the end of their fiscal year. Audits of schools that do satisfy this requirement must include a statement to that effect.
- ♦ The institution's overall financial management capability must be examined annually by auditors to ensure that good practices are maintained and that poor ones are corrected. Two important areas in which standards must be upheld for continued participation in Title IV programs are financial responsibility and **administrative capability**.*

Reference:

- 34 CFR 668.16

***The standards of financial responsibility and administrative capability applies to all schools, not just those affected by the 90/10 rule.**

Reference:

- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- HEA, Section 102(b)
- 34 CFR 600.5(a)(8) and (d)

Application for Approval to Participate

An institution must be approved and certified by ED to participate in any of the following Title IV programs:

Reference:

- 34 CFR 668.12 and 13
- 34 CFR 600.20 and 21

- ♦ Federal Pell Grant,
- ♦ Federal Supplemental Educational Opportunity Grant (FSEOG),
- ♦ Federal Work-Study (FWS),
- ♦ Federal Perkins Loan (Perkins),

♦ Federal Direct Loan, *and*

♦ Federal Family Education Loan (FFEL).

Reference:
- http://www.eligcert.ed.gov

To apply for institutional participation, an institution must submit an **Application for Approval to Participate in Federal Student Financial Aid Programs** to ED, as well as any other requested materials (such as a current letter of accreditation and a valid state license or other state authorization). Schools access the application electronically using ED's Web site, complete the electronic application (E-App), and submit it to ED. This automated format has greatly streamlined the old paper-based application process, and results in significant time saved for school staff and ED. However, schools must sign and mail to ED Section L (paper signature page) of the application along with all required supporting documents.

ED uses the information in the application to determine whether the school meets Title IV eligibility requirements and is administratively capable and financially responsible.

Program Participation Agreement and the ECAR

Reference:
- 34 CFR 668.14

When ED approves a school's application, ED sends the school two copies of a Program Participation Agreement (PPA). The PPA includes the date the school's eligibility to participate in Title IV programs expires. The school must sign and return both copies of the PPA to ED to participate in any Title IV program other than the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program). ED then sends the school an **approval letter**, an **Eligibility and Certification Approval Report (ECAR)**, and a copy of the school's PPA signed and dated by ED.

♦ The approval letter details what changes at the school would need to be reported to ED, as well as what changes would cause the school to lose its eligibility to participate in Title IV programs. In addition, the approval letter provides the school with its OPE-ID number and a description of the ECAR.

♦ The ECAR contains the critical data elements that form the basis of the school's approval. It also lists the highest level of educational offering, any non-degree programs or short-term programs, and any additional locations at which the school has been approved for the Title IV programs. All of these documents must be kept available to be reviewed by auditors and ED officials, including Title IV program reviewers.

Under the PPA, an institution agrees to comply with the laws and regulations governing Title IV programs. When entering into a PPA, the school must demonstrate it can carry out its administrative responsibilities for properly managing Title IV programs and that it has the financial resources necessary for providing the education it promises under the factors of financial responsibility.

A school that is participating for the first time in federal student aid programs is provisionally certified for one award year.

A school that wishes to continue to participate in Title IV aid programs is required to be recertified before the expiration date of its PPA. Recertification may last up to six years, but could be for a shorter period under certain conditions. Six months before its PPA expires, ED will send a recertification reminder notice to the school. The school must submit a materially complete application that includes all required supporting documentation requesting recertification 90 days before the expiration date of its current PPA if it wants to continue to award federal financial aid funds without interruption.

Reference:

- DCL ANN-97-4
- DCL ANN-97-7
- DCL GEN-98-8

Single Identifier Initiative

Schools currently use an OPE-ID number — an eight digit, system-generated identifier issued by ED — that accounts for the institution's main location, its off-site locations, and its Electronic Data Exchange (EDE) addresses. In some cases, different OPE-ID numbers (for the same Title IV program) have been used for the same institution. This type of overlap impairs ED's ability to provide accurate information about the amount of financial aid a college or university receives and hinders effective oversight of Title IV programs. To remedy this, ED has implemented a single identifier for schools.

Reference:

- http://www.dnb.com

In December 1998, ED completed and populated an identifier crosswalk in the Postsecondary Education Participants System (PEPS). From July 1999 to June 2000, ED implemented a single, eight-digit identification numbering system. ED rearranged identifiers so that each school uses only one OPE-ID number. Those identifiers are now crossed to a single revised OPE-ID numbering system.

2.3 Financial Responsibility Standards

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- HEA, Section 498(c)
- 34 CFR 668, Subpart L

Congress requires ED to assess whether schools meet financial responsibility standards. To meet these standards, schools must satisfy three statutory components.

According to ED regulations, a school is considered to be financially responsible if it:

1. provides the services described in its official publications and statements,
2. properly administers the Title IV programs in which it participates, *and*
3. meets all of its financial obligations.

Using institutional audited financial statements and other information, ED evaluates whether the school meets required financial responsibility standards. See the chart on the next page for details.

Components of Financial Responsibility	
To be financially responsible, a school must...	ED assesses schools on the basis of...
• Provide the services described in its official publications and statements	• Sufficient resources for its education programs, services, and financial obligations
• Administer Title IV programs properly	• Past performance • Program compliance
• Meet its financial obligations	• Making timely refunds of tuition and other related costs to students • Making timely returns of Title IV funds to ED • Being current on its debt payment

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.171(c)

Reference:
- 34 CFR 668.174

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.171(b)(1)
- 34 CFR 668.172(b)(1)(2)
- 34 CFR 668, Appendix F
- 34 CFR 668, Appendix G

Financial Responsibility Standards for Public Institutions

ED considers a public institution to be financially responsible if the institution:

- notifies ED that it is designated as a public institution by the state, local, or municipal government entity, tribal authority, or other government entity that has legal authority to make that designation;
- provides a letter from an official of that state or government entity confirming that the institution is a public institution; *and*
- is not in violation of any past-performance requirement.

Financial Responsibility Standards for Proprietary and Private Institutions

A for-profit or nonprofit, private institution is financially responsible if ED determines that it meets *all* of the four standards that follow and does not have an adverse, qualified (limited or modified in some way), or disclaimed audit opinion or past-performance problem.

Standard #1

The institution's equity, primary reserve, and net income ratios must yield a **composite score** of at least 1.5. ED determines the composite score by:

***DCL GEN-01-02 deals with the inclusion of "debt obtained for long-term purposes" in the primary reserve ratio.**

1. calculating the result of the school's **primary reserve,*** **equity, and net income ratios**,
2. calculating the strength-factor score for each of those ratios by using the corresponding algorithm,
3. calculating the weighted score for each ratio by multiplying the strength-factor score by its corresponding weighted percentage,
4. summing the resulting weighted scores to arrive at the composite score, *and*
5. rounding the composite score to one digit after the decimal point.

Reference:

- See pages 2-68 through 2-73 of this book for more information on calculating ratio methodologies for proprietary and private, nonprofit institutions.

The ratios for proprietary institutions are:

- $$\textit{Primary Reserve Ratio} = \frac{\text{Adjusted Equity}}{\text{Total Expenses}}$$
- $$\textit{Equity Ratio} = \frac{\text{Modified Equity}}{\text{Modified Assets}}$$
- $$\textit{Net Income Ratio} = \frac{\text{Income Before Taxes}}{\text{Total Revenues}}$$

The ratios for private, nonprofit institutions are:

- $$\textit{Primary Reserve Ratio} = \frac{\text{Expendable Net Assets}}{\text{Total Expenses}}$$
- $$\textit{Equity Ratio} = \frac{\text{Modified Net Assets}}{\text{Modified Assets}}$$
- $$\textit{Net Income Ratio} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues}}$$

Reference:

- 34 CFR 668.172(c)(1)

In calculating an institution's ratios, ED generally excludes:

- extraordinary gains or losses,
- income or losses from discontinued operations,
- prior-period adjustments,
- the cumulative effect of changes in accounting principles, *and*
- the effect of changes in accounting estimates.

Reference:

- 34 CFR 668.172(c)(2), (3), and (4)

ED may include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs.

Reference:
- 34 CFR 668.172(c)(5)

ED also excludes:

- all unsecured or uncollateralized related-party receivables,
- all intangible assets defined as intangible according to generally accepted accounting principles (GAAP), *and*
- federal funds provided to an institution by ED as authorized by the HEA only if:
    - the auditor, in notes to the audited financial statement or as a separate attestation, discloses by name and **Catalog of Federal Domestic Assistance (CFDA)** number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by the audit or attestation *and*
    - the institution's composite score, as determined by ED, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the Primary Reserve Ratio.

Reference:
- 34 CFR 668.171(b)(2)
- 34 CFR 668.173(a)

Standard #2

The institution must have sufficient cash reserves to make required refunds. An institution is considered to have sufficient cash reserves if it:

- satisfies the requirements of a public institution,
- demonstrates that it makes its refunds and returns in a timely manner, *or*
- is located in a state that has a tuition-recovery fund approved by ED and the institution contributes to that fund.

Reference:
- 34 CFR 668.173(b)(1) and (2)

An institution makes timely refunds (which includes payments from return of Title IV funds calculations and institutional refunds) if neither the auditor(s) who conducted the institution's compliance audits for the institution's two most recently completed fiscal years nor ED, nor a state, nor guaranty agency that conducted a review of the institution covering those fiscal years:

- found in the sample of student records that:
    - the institution made late refunds (including students who received or should have received a refund or repayment of unearned Title IV aid) to 5 percent or more of the students in that sample *or*
    - the institution made only one late refund or repayment of unearned Title IV aid to a student in that sample, *and*

- did not note for either of those fiscal years a material weakness or a reportable condition in the institution's report on internal controls that is related to refunds.

Reference:
- 34 CFR 668.173(c)

If an institution no longer satisfies a refund standard or is not making its refunds in a timely manner, the institution must submit an irrevocable letter of credit. The letter of credit must be:

- acceptable and payable to ED *and*
- equal to 25 percent of the total amount of Title IV refunds the institution made or should have made during its most recently completed fiscal year.

Reference:
- 34 CFR 668.173(c)(1) and (2)

The institution must submit this letter of credit to ED no later than:

- 30 days after the date the institution is required to submit its compliance audit to ED, if the finding is by the auditor who conducted that compliance audit *or*
- 30 days after the date ED or the state or guaranty agency that conducted a review of the institution notifies the institution of the finding.
    - The institution must also notify ED of that finding and of the state or guaranty agency that conducted a review of the institution.

Reference:
- 34 CFR 668.173(d)

To determine whether to approve a state's tuition-recovery fund, ED considers the extent to which that fund:

- provides refunds to both in-state and out-of-state students,
- allocates all refunds according to the order required under 34 CFR 668.22 (referred to as either treatment of Title IV funds when a student withdraws or return of Title IV funds), *and*
- provides a reliable mechanism for the state to replenish the fund if any claims arise that deplete the fund's assets.

Standard #3

Reference:
- 34 CFR 668.171(b)(3)

The institution must be current in its debt payments. An institution is not current in its debt payments if:

- it is in violation of any existing loan agreement at its fiscal-year end, as disclosed in a note to its audited financial statements or audit opinion, *or*
- it fails to make a payment according to existing debt obligations for more than 120 days *and* at least one creditor has filed suit to recover funds under those obligations.

Reference:
- 34 CFR 668.171(b)(4)

Standard #4

The institution must meet all of its financial obligations, including (but not limited to):

- refunds that it is required to make under its refund policy, return of Title IV funds, and payments of post-withdrawal disbursements, *and*
- repayments to ED for debts and liabilities arising from its participation in Title IV programs.

Reference:
- 34 CFR 668.171(d)(1) and (2)

Even if an institution satisfies all of these standards, ED will not consider the school financially responsible if:

1. the institution's audited financial statements contain an adverse, qualified (limited or modified in some way), or disclaimed audit opinion, or the auditor expresses doubts about the continued existence of the institution as a going concern; *(ED will disregard this reason if the qualified or disclaimed opinion does not have a significant bearing on the institution's financial condition.)*

OR

Reference:
- 34 CFR 668.174(b)(2)

2. the institution violated a Title IV program requirement or the persons or entities affiliated with the institution owe a liability for a violation of a Title IV program requirement. *(ED will disregard this reason if the liability in question is being repaid or the persons or entities owing the liability do not exercise substantial control over the institution.)*

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.174(a)(1)

Past Performance

An institution is not financially responsible if it:

- has been limited, suspended, terminated, or entered into a settlement agreement to resolve a limitation, suspension, or termination action initiated by ED (or by a guaranty agency as defined in 34 CFR Part 682 for the Federal Family Education Loan [FFEL] Program) within the preceding five years;

Reference:
- 34 CFR 668.174(a)(2)

- in either of its two most recent compliance audits had an audit finding or in a report issued by ED had a program review finding for its current fiscal year *or* in either of its preceding two fiscal years that resulted in the institution being required to repay an amount greater than 5 percent of the funds that the institution received under the Title IV programs during the year covered by that audit or program review;

Reference:
- 34 CFR 668.174(a)(3)

- has been cited during the preceding five years for failing to submit in a timely fashion acceptable compliance and financial statement audits required under 34 CFR 668.174 or acceptable audit reports required under individual Title IV program regulations; *or*

Reference:
- 34 CFR 668.174(a)(4)

- has failed to resolve satisfactorily any compliance problems identified in audit or program review reports based on a final decision issued by ED according to subpart G or H of the General Provisions.

Other Financial Responsibility Standards

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.175(a)

Some schools that are not financially responsible under the regular standards may begin participating or continue participating in Title IV programs by qualifying under an alternative standard. There are three types of alternative standards: **letter-of-credit alternative**, **zone alternative**, and **provisional certification alternative**. There are also specific financial responsibility standards for schools that change ownership and for guaranty agencies.

Letter-of-Credit Alternative

Reference:
- 34 CFR 668.175(b)

An institution that seeks to participate in Title IV programs for the first time, but is not financially responsible solely because its composite score (from its equity, primary reserve, and net income ratios) is less than 1.5, will qualify as a financially responsible institution by submitting an irrevocable letter of credit that is acceptable and payable to ED. ED will specify the amount, but regulations require the letter of credit to equal at least 50 percent of the amount of Title IV program funds that ED determines the institution will receive during its initial year of participation.

Reference:
- 34 CFR 668.175(c)

A participating institution that is not financially responsible because it does not satisfy one or more of the financial responsibility standards or has an unsatisfactory audit opinion can also qualify by using an irrevocable letter of credit. To qualify as financially responsible, the letter must be acceptable and payable to ED. ED will specify the amount, but regulations require the letter of credit to equal at least 50 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.

A participating school that is not financially responsible due to past performance problems is not eligible for this letter-of-credit alternative.

Zone Alternative

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.175(d)

The zone alternative is an option for a participating institution only if the school is not financially responsible because its composite score (from its equity, primary reserve, and net-income ratios) is less than 1.5. If a participating school fails any other test of financial responsibility, the school cannot qualify for the zone alternative.

An institution may participate in Title IV programs under this alternative if its composite score is in the range from 1.0 to 1.4 (based on the audited financial statement for its most recently completed fiscal year) and it satisfies other standards of financial responsibility. ED may allow a school to participate under the zone alternative for no more than three consecutive years. An institution that qualifies under this alternative, whether for three years or just one or two years, cannot use the zone alternative again until the year after it achieves a composite score of at least 1.5.

To participate under the zone alternative, ED requires an institution to:

- use the cash monitoring or reimbursement payment method to make disbursements to eligible students and parents *and*

- provide timely information about any of the following six oversight and financial events:

  1. any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;

  2. any event that causes the institution or a related entity to realize (convert to cash) any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;

  3. any violation by the institution of any loan agreement;

  4. any failure of the institution to make a payment according to its debt obligations that results in a creditor filing suit to recover funds under those obligations;

  5. any withdrawal of owner's equity from the institution by any means, including declaring a dividend; *or*

  6. any extraordinary losses.

No later than 10 days after the event occurs, the school must provide information on the above events to ED by certified mail, fax, or other electronic transmission. If fax or other electronic transmission is used, the school is responsible for confirming that ED received a complete, legible copy of the transmission.

Under the zone alternative, the institution must, as a part of its compliance audit, require its auditor to express an opinion on the school's compliance with the requirements under the zone alternative, including the school's administration of the payment method under which it received and disbursed Title IV program funds.

ED may also require:

Reference:
- 34 CFR 668.23(a)(4)

- ♦ the institution's audited financial statement and compliance audit to be submitted earlier than specified in regulations (for example, instead of six months after the end of the school's fiscal year, ED could require the school to submit its audit as early as 60 days after the end of its fiscal year) *and*

- ♦ the institution to provide information about its current operations and future plans.

Provisional Certification Alternative

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.175(f)

The provisional certification *alternative* differs from the standard provisional certification for a school that is new to the Title IV program the first year it participates in Title IV programs. The provisional certification alternative is for participating institutions that cannot qualify, or choose not to qualify, under any of the other alternatives. Additionally, a school may be granted provisional certification if it allowed its certification to lapse, had significant audit or program review findings, or owes outstanding liabilities to ED.

Reference:
- 34 CFR 668.171 (b) and (d)

Reference:
- 34 CFR 668.174(a)

ED, at its discretion, may allow provisional certification for an institution that is not financially responsible because:

- ♦ it does not satisfy the financial responsibility standards or has an unsatisfactory audit opinion *or*

- ♦ its past performance shows that it violated a Title IV program requirement, but it has satisfied or resolved the violation.

Under this alternative, an institution receives an initial annual provisional certification, which cannot exceed three consecutive fiscal years. An initial provisional certification carries the following three main conditions:

Reference:
- 34 CFR 668.171 (b)(3) and (b)(4)

1. The institution must submit an irrevocable letter of credit that is acceptable and payable to ED. ED decides on the amount, but it cannot be less than 10 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.

2. The institution must demonstrate it was current on its debt payments and has met all of its financial obligations for its two most recent fiscal years.

3. The institution must comply with all of the provisions of the zone alternative.

Reference:
- 34 CFR 668.175(d)(2) and (d)(3)

When the initial provisional certification ends, if the institution is still not financially responsible, ED may again permit it to participate under a provisional certification alternative. However, ED may impose one or both of the following additional conditions:

1. ED may require the institution, or one or more persons or entities that exercise substantial control over it, to submit financial guarantees for an amount determined by ED to be sufficient to satisfy any potential liabilities arising from the institution's participation in Title IV programs.

2. ED may require one or more persons or entities that exercise substantial control over the institution to be jointly or severally liable for any liabilities arising from the institution's participation in Title IV programs.

Provisional Certification Alternative for Institutions Controlled by Persons or Entities Owing Liabilities

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.175(g)

An institution may be deemed not financially responsible because the persons or entities that exercise substantial control over the institution owe a liability for a violation of a Title IV program requirement.

In such cases, ED may allow the school to participate under a provisional certification alternative only on three conditions:

1. Either the persons or entities that exercise substantial control repay or enter into an agreement with ED to repay the applicable portion of that liability, or the institution assumes that liability and repays or enters into an agreement with ED to repay that liability.

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

2. The institution must satisfy the standards of financial responsibility and demonstrate that it is current on its debt payments and has met all of its financial obligations for its two most recent fiscal years.

3. The institution must submit an irrevocable letter of credit that is acceptable and payable to ED. ED decides on the amount, but it cannot be less than 10 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.

Reference:
- 34 CFR 668.175(f)(3)

ED also requires the institution to comply with the provisions under the zone alternative. Furthermore:

1. ED may require the institution, or one or more persons or entities that exercise substantial control over the institution, or both, to submit financial guarantees for an amount determined by ED to be sufficient to satisfy any potential liabilities arising from the institution's participation in Title IV programs; *and*

2. ED may require one or more of the persons or entities that exercise substantial control over the institution to be jointly or severally liable for any liabilities arising from the institution's participation in Title IV programs.

New

Reference:
- 34 CFR 668.15

Reference:
- 34 CFR 668.15(b)(15)(ii) (A) and (B)

Reference:
- HEA, Section 487
- 34 CFR 668.14(b)(15)

Schools That Change Ownership

A school loses eligibility to award Title IV funds when it undergoes a change in ownership that results in a change of control. If the school wants to regain its eligibility, it must reapply under the new ownership. If a school submits a materially complete application within 10 days of the date of the change, the regulations now provide that ED (at its discretion) may offer a temporary PPA that extends the previous PPA.

A newly eligible institution or an institution that is undergoing a change of ownership is required to implement a default management plan for two years unless:

- the school's branch campus or main campus has a cohort default rate of 10 percent or less *and*
- the new owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent.

The checklist on the next page lists the general rules that a school with a change in ownership must follow to be considered financially responsible.

To be considered financially responsible, a school that changes ownership must...

- provide the services described in its official publications and statements
- provide the administrative resources necessary to comply with requirements for participating in Title IV programs
- meet all of its financial obligations, including paying required institutional refunds (including post-withdrawal disbursements) to students and all debts (including the return of Title IV funds payments) to ED
- be current in paying any institutional debts
- post an irrevocable letter of credit, acceptable and payable to ED, equal to 25 percent of the total amount of Title IV program refunds paid by the school in the previous fiscal year
- not have as part of its most recent audit report a statement expressing substantial doubt of the school's ability to continue as a "going concern" or a disclaimed or adverse opinion by the accountant
- not have an individual who exercises significant control over the school and owes a liability for a Title IV program violation unless the school and the individual owing the liability meet certain regulatory provisions
- not have been limited, suspended, or terminated from a Title IV program or not have entered into a settlement agreement to resolve a limitation, suspension, or termination within the preceding five years
- not have been required to repay an amount greater than 5 percent of Title IV funds received for an award year as a result of a finding during its two most recent program reviews or audits
- not have been cited during the preceding five years for failure to submit acceptable audit reports in a timely manner
- not have failed to satisfactorily resolve any compliance problems identified during a program review or audit

References:

- CFR 668.15(a)(3)
- CFR 668.15(d)(1)C

2.4 Administrative Capability

In addition to demonstrating that it is financially responsible, a school must be administratively capable of participating in Title IV programs. Using a school's audited financial statements and other information, ED evaluates the school's administrative capability according to the standards contained in regulations. (See the checklist on the next page for specifics.)

Reference:

Reference:

- 34 CFR 668.16
- 34 CFR 668.16(m)(2)

If ED finds that a school is not administratively capable based solely on its cohort default rate(s) for the Direct Loan Program, FFEL Program, and/or Federal Perkins Loan Program, ED may provisionally certify the school's participation in Title IV programs.

To be considered administratively capable, a school must...

- administer Title IV programs according to all Title IV requirements
- use an adequate number of qualified persons to administer Title IV programs in which the school participates
- designate a capable individual to be responsible for administering all Title IV programs
- communicate to the individual responsible for administering Title IV programs all information that bears on students' Title IV eligibility
- have written procedures for administering Title IV aid programs
- administer Title IV programs with adequate checks and balances in its system of internal controls
- separate the functions of authorizing Title IV payments and disbursing and/or delivering Title IV funds so no one person or office has responsibilities for both actions
- establish, maintain, and retain required Title IV records
- establish, publish, and apply reasonable standards for measuring students' satisfactory academic progress (SAP)
- develop an adequate system for resolving discrepancies in information related to students' applications for Title IV funds
- have procedures that ensure frequent periodic reconciliation of fiscal office and financial aid office award data
- have a process to notify ED within ten days about important changes, such as changes in its name, address, or ownership
- provide adequate financial aid counseling to Title IV applicants
- refer any credible information about Title IV fraud, abuse, or misrepresentation to ED's Office of Inspector General (OIG)
- submit required Title IV reports in a timely manner, including fiscal reports, financial statements, and reconciliations
- not demonstrate any significant problems in its ability to administer Title IV programs
- not have as a principal or affiliate of the school any individual who is/has been debarred or suspended or engaged in any activity that would be cause for debarment or suspension
- not have had more than 33 percent[1] of its undergraduate regular students[2] withdraw during the latest completed award year (for a school seeking initial participation in a Title IV program)
- have a cohort default rate of less than 25 percent under the FFEL Program/Direct Loan Program for each of the three most recent fiscal years and that is equal to or less than 15 percent under the Federal Perkins Loan Program
- not appear to lack the ability to administer Title IV programs competently
- participate in electronic processes that ED provides at no substantial charge and identifies through a notice published in the *Federal Register*
- have procedures that ensure that its requests for federal cash do not exceed the amount of the funds it needs immediately to make aid disbursements to students
- implement procedures for the return of Title IV funds
- perform annual compliance audits

1. Students who withdraw and receive a 100 percent refund of tuition and fees are not included in the 33 percent.
2. A regular student is a person who is enrolled or accepted for enrollment at an institution for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that institution. See 34 CFR 600.2.

Reference:
- 34 CFR 668.16(c)(2)
- See Section 5.4 of this book for further details on the separation of functions.

Separation of Functions

Federal regulations require an institution to divide the functions of authorizing payments and disbursing funds so that no single office or individual has responsibility for both functions for any student receiving Title IV funds. Even at very small institutions, no one person may be allowed to authorize payment of Title IV funds *and* to disburse those funds.

> ***A school must ensure that authorizing payment and disbursing payment for any student receiving ANY Title IV student aid are carried out by at LEAST two organizationally independent individuals. These individuals cannot be members of the same family, and they cannot together exercise substantial control over the school.***

Typically, the financial aid office awards Title IV funds and authorizes payment of those funds to students. The fiscal office requests funds from ED's Grant Administration and Payment System (GAPS) and disburses the funds by crediting student accounts, delivering checks to students, or delivering cash to students. The person who awards Title IV funds is not allowed to be authorized by the institution to sign checks or deliver them to students, nor may he or she be permitted to deliver cash to students or to credit student accounts with Title IV aid to cover allowable costs (such as tuition, fees, books, supplies, or other authorized charges).

As mentioned earlier, electronic processes enhance accuracy and efficiency. They also, however, can blur separation of functions so the awarding and disbursement occur virtually simultaneously. For example:

- In the advance payment method* under the Recipient Financial Management System (RFMS), an origination record, as well as a disbursement record, must be created for each student eligible to receive a Federal Pell Grant. The financial aid office authorizes the payment (origination record and disbursement record) and the business office requests the funds from GAPS and disburses those funds to the student.

- In the Direct Loan Program, for the student to be eligible for a disbursement of a Direct Loan, a promissory note must be on file and an origination record and disbursement record must be created. Once the origination record is created, the financial aid office receives a disbursement list. The financial aid office then authorizes the loan to be disbursed and the business office requests the funds from GAPS and disburses the funds to the student's school account.**

***Under the just-in-time payment method, schools handle the authorization and disbursement process differently. The disbursement record itself causes RFMS to deposit funds in the school's bank account.**

****Schools that use student accounts must disburse Direct Loan funds directly to the student's school account to pay for allowable charges. See Section 4.7 of this book for more information.**

Reference:
- See Appendix D for more information on Case Management Teams.

Schools must set up controls to prevent an individual or an office from having the authority to perform both functions. For guidance on the separation of functions, contact the ED Case Management and Oversight Team that serves your school's state.

> ***Because electronic processes can blur separation of functions, a school must be careful to create controls that ensure separation of authorizing Title IV payments and disbursing Title IV payments.***

Required Electronic Processes

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- *Federal Register*, September 19, 1997
- 34 CFR 668.16(o)

To be considered administratively capable to participate in Title IV programs, an institution must use electronic processes to communicate with ED systems. ED:

- ♦ provides these at no substantial charge to the school *and*
- ♦ identifies them through a notice published in the *Federal Register*.

ED requires all schools to use certain electronic processes to participate in and administer Title IV programs. A list of the *required* minimum technical specifications is on page 29.*

Beginning with the 2002-03 processing cycle (January 1, 2002), schools using a PC platform to participate in and administer Title IV programs must be prepared to process ED data using a 32-bit operating system:

- ♦ Microsoft Windows 98,
- ♦ Microsoft Windows NT 4.0, *or*
- ♦ Microsoft Windows 2000.

ED's electronic services no longer support the disk operating system (DOS) or any earlier versions of Windows.

New

***For optimal configuration specifications, refer to EDExpress Technical Reference.**

Technical Specifications

Equipment	Minimum REQUIRED Configuration by January 1, 2002 (for the 2002-03 processing cycle)
Hardware	♦ IBM or fully IBM-compatible PC ♦ 800 MHz Pentium processor or comparable ♦ 128 MB RAM or more ♦ 20 GB hard drive, with at least 500 MB available hard-disk space ♦ 56K modem (that meets or is upgradeable to v.90) ♦ 3.5-inch/1.44 MB diskette drive ♦ Microsoft-compatible mouse ♦ SVGA monitor (capable of 800 X 600 resolution [small fonts] or higher) ♦ Windows 95 keyboard ♦ Speakers ♦ Laser printer capable of printing on standard paper (8.5-inch x 11-inch) ♦ 24x CD-ROM drive or higher, read/write with sound board
Software	♦ 32-bit operating system ♦ Microsoft Windows 98, Microsoft Windows NT 4.0, or Microsoft Windows 2000 ♦ Supported network: Windows NT ♦ Internet service provider (ISP)[1] **<u>Portal Browser Requirements</u>** ♦ Internet Explorer v4.01 or higher ♦ Netscape Navigator v4.73 or above **<u>Other Browser Requirements</u>** ♦ Internet Explorer v4.01 or higher ♦ Netscape Navigator v4.0 or above
Phone Line	♦ Dedicated phone line
Diskettes	♦ 3.5-inch, high-density, double-sided diskettes

[1] An Internet service provider (ISP) is needed to access the Information for Financial Aid Professionals (IFAP) Web site, RFMS, GAPS, NSLDS, and to submit the Application for Approval to Participate in Federal Student Financial Aid Programs (initial certification, recertification, reinstatement, and changes).

Note: For optimal configuration specifications, refer to the EDExpress Technical Reference.

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Reference:

http://sfablueprint.ed.gov

Modernization Blueprint

On August 1, 1995, the U.S. Secretary of Education requested ED and its partners in the postsecondary education community to design, integrate, and develop a comprehensive financial aid delivery system. In response to this challenge, government, education, students, and business leaders initiated the **Modernization Blueprint**.

The Modernization Blueprint is a collaborative effort by members of the postsecondary education community (including ED, schools, lenders, servicers, guarantors, professional organizations, and state agencies) to define and implement a customer-focused system to support postsecondary education, as well as to improve customer access to information and funding for education beyond high school. Updates to the Modernization Blueprint are released quarterly on ED's Modernization Blueprint Web site and incorporate the comments and suggestions of the postsecondary education community.

The goals of the Modernization Blueprint include providing system users with a single point of interface to the more streamlined processes associated with postsecondary education, while simultaneously reducing complexity, redundancy, and cost.

The Modernization Blueprint has six major functional areas:

1. sharing information
2. applying for and processing federal financial aid
3. disbursing federal financial aid
4. tracking and reporting enrollment
5. handling repayments of federal financial aid
6. providing program management and oversight

When fully implemented, the Modernization Blueprint will assist students and their families in planning for postsecondary education, choosing among postsecondary schools, and financing their choices.

Access America for Students

The Access America for Students (AAFS) Pilot Program, initiated by ED's Office of Student Financial Assistance, was used to test key concepts for improving the delivery of student aid and was incorporated into the Modernization Blueprint. In particular, AAFS tested three pilot program components:

- Commercial Student Account/Account Manager

- Internet Web Portal
- Electronic ID

Through partnership with federal agencies and the postsecondary education community, the AAFS pilot successfully met its objectives and has provided SFA with valuable information concerning the use of commercial transaction processors, the integration of data from legacy systems, and the use of Web portals to improve access to information and services. Key pilot components have graduated to become mainstream efforts in the design and development of SFA's future systems.

2.5 Student Consumer Information

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668, Subpart D

Regulations specify published information that institutions are required to make available to currently enrolled students, prospective students, and employees. These regulations also allow ED to fine a school, or to limit, suspend, or terminate the Title IV program participation of any school that substantially misrepresents the nature of its educational program, financial charges, or the employability of its graduates.

Providing this consumer information is an area of responsibility that is shared among institutional offices. In general, the financial aid office and business office share primary responsibility for providing this information, but other offices must be involved as well. For example, the Campus Security Act requires schools to publish, on an annual basis, the occurrence of certain types of crime. If schools do not comply with this and other student consumer information requirements, they may lose their eligibility to participate in Title IV programs.

Financial Aid Information

Reference:

- 34 CFR 668.42

All institutions are required to provide information about:

- all financial aid programs available to students, the amounts of aid available from each source, and the required application procedures;
- how student eligibility for aid is determined;
- how the school distributes aid among students;
- the rights and responsibilities of financial aid recipients;
- how and when financial aid will be disbursed;
- the terms and conditions of any employment offered as financial aid;
- deferment and forbearance options for its loan borrowers;

- the terms of, schedules for, and necessity of repaying loans;
- the criteria for measuring students' satisfactory academic progress and the procedures students must follow to regain eligibility if they fail to meet these criteria;

Reference:
- 34 CFR 668.14(b)(14)
- 34 CFR 668.43(a)(9)

- information on preventing drug and alcohol abuse;
- information about the availability of federal financial aid funds for study-abroad programs; *and*
- information on availability of community-service FWS jobs.

Reference:
- 34 CFR 668.43

General Information

Schools are also required to provide general information about themselves. This information includes matters related to fiscal operations, such as:

- licensing and accreditation;
- costs of attendance, including tuition, fees, room and board, transportation, books and supplies (which can include the cost of buying or renting a computer), loan fees, and additional costs associated with certain programs of study;
- all requirements for officially withdrawing from school;
- its institutional refund policy (if the school is required by its state agency or its accrediting agency to provide that information);
- the policy on the return of Title IV funds; *and*
- how the school returns Title IV funds to program accounts.

Reference:
- 34 CFR 668.44

Availability of Personnel

Federal regulations require that schools make personnel available during normal operating hours to help current and prospective students obtain consumer information.

Reference:
- 34 CFR 668.14(b)(10)

Job-Placement Claims

A school that makes marketing claims about job-placement rates to recruit students must disclose information supporting these claims to prospective students at or before the time they apply. This means that a school must provide detailed statistics and other information needed to substantiate the truthfulness of its claims. If a school advertises job-placement rates to attract enrollment, it must inform prospective students of the state licensing requirements for the jobs for which the students seek training.

Student Right-To-Know Provisions

Reference:
- 34 CFR 668.45

All schools participating in Title IV programs are subject to the disclosure requirements of the **Student Right-To-Know (SRK) Act**. SRK requires a school to make available its completion or graduation rates by July 1 of each year. A school must provide the information to enrolled and prospective students on request.

- ♦ In the case of a prospective student, the school must provide information before the student enters into a financial obligation.

A school also must provide the information to ED through the annual National Center for Education Statistics (NCES) graduation-rate survey.

By July 1 of each year, SRK requires a school that awards athletically related student aid to report to ED various types of information concerning students who receive athletic aid, including their completion rate or graduation rate. SRK also requires a school to provide the information to a prospective student-athlete and his or her parents, high school coach, and guidance counselor at the time the school offers the prospective student-athlete athletically related student aid.

Equity in Athletics Provisions

Reference:
- 34 CFR 668.47

The **Equity in Athletics Disclosure Act (EADA)** is designed to make students, prospective students, and the interested public aware of:

- ♦ the athletic opportunities available to a school's male and female students *and*
- ♦ the financial resources and personnel the school dedicates to its men's and women's teams.

EADA applies to any coeducational institution of higher education that participates in a Title IV student aid program and has an intercollegiate athletic program. According to EADA,* a school that fits this category must prepare an annual report that includes such information as:

- ♦ the number of male and female full-time undergraduate students that attend the institution,
- ♦ a list of the school's varsity teams,
- ♦ the number of participants on each team,
- ♦ the number of coaches for each team,

***The reauthorization of the HEA in 1998 moved certain athletically related expense and revenue disclosure requirements that had been in the section of the HEA dealing with a school's Program Participation Agreement to EADA. These amendments also repealed the audit requirement for those disclosures.**

Reference:

- 34 CFR 668.41(g)

Reference:

- HEA, Section 485(f)
- 34 CFR 668.46

- ♦ various breakdowns of athletically related expenses and revenues, *and*
- ♦ the number of students receiving athletically related financial aid and the amount of that aid.

A school must make its EADA report available on request to enrolled students, prospective students, and the public by October 15 of each year, and the school also must submit the report to ED within 15 days of making it available to the public.

Campus Security Provisions

The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (formerly the **Campus Security Act** of 1990) requires schools to publish specific crime-related information on an annual basis. The report includes information about a school's security policies and procedures, crime-prevention programs, and campus-crime statistics. The school must distribute this information to all current students and employees and, on request, to prospective students and employees. See Appendix A of this publication for definition of "campus."

Schools also must provide timely warning to the campus community of any occurrences of crimes that are reported to the campus-security authorities or local police agencies and that are considered to represent a continuing threat to students and/or employees. The crimes to be reported are:

- ♦ murder and negligent manslaughter,
- ♦ forcible and nonforcible sex offenses,
- ♦ robbery,
- ♦ aggravated assault,
- ♦ burglary,
- ♦ motor-vehicle theft,
- ♦ arson, *and*
- ♦ arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession.

Campus-crime statistics must be categorized on the basis of where a criminal offense occurs:

- ♦ on campus,
- ♦ in or on a non-campus building or property,

- on public property, *and*
- in dormitories or other residential facilities for students on campus.

Schools must also maintain statistics by "category of prejudice" for any hate crimes involving bodily injury. That is, crimes to any person in which the victim is intentionally selected because of actual or perceived race, gender, religion, sexual orientation, ethnicity, or disability.

***Before October 1998, schools submitted these statistics to ED only when ED requested them.**

These statistics are reported annually* to ED using the Internet. Schools sign on to an ED-designated Web site and enter the appropriate information online. Notification of the URL and deadlines for submitting data are published each year in a "Dear Partner" letter in the spring. ED makes copies of the statistics available to the public.

New

Reference:
- DCL GEN-00-11

The provisions of the **Family Educational Rights and Privacy Act (FERPA)** are not in conflict with and do not prohibit a school from complying with the requirements of the campus-security regulations.

Reference:
- 34 CFR 668.46(f)

Campus-Crime Log

Schools that maintain a campus police or campus security department must maintain written, easily understood daily logs of crimes reported to the campus police or security department. These daily logs:

- must include the nature, date, time, and general location of the crime *and*
- the disposition of the complaint, if known.

Entries to daily logs must be made within two business days of when the information is reported to the campus police or security department. The exception is when disclosing the information is prohibited by law or it would jeopardize the confidentiality of the victim.

Schools must make the crime log for the most recent 60-day period open to public inspection during normal business hours. Any portion of the log that is older than 60 days must be produced within two business days on request.

Daily logs must be open to public inspection within two business days of the report except where release of the information would:

- jeopardize an ongoing criminal investigation or the safety of an individual,
- cause a suspect to flee or evade detection, *or*
- result in the destruction of evidence.

Reference:
- 34 CFR 668.16(b)(4)

2.6 Institutional Policies and Procedures Manual

The law requires schools to have written policies and procedures for administering Title IV programs. The policies and procedures must include but are not limited to:

- student consumer information,
- verification of information reported on a student's financial aid application,
- satisfactory academic progress,
- return of Title IV funds, *and*
- loan disclosure statements and fact sheets (this requirement does not apply to Direct Loans).

Advantages of Policies and Procedures Manual

Although the law does not require schools to maintain written policies and procedures in a manual, schools generally find that a manual helps them manage financial aid programs more effectively, efficiently, and consistently. A comprehensive manual can:

- document how and when the school establishes specific policies and procedures,
- provide a single location for the school's policies and procedures, *and*
- serve as a reference guide and training resource.

A policies and procedures manual is also an extremely valuable compilation to have on hand when a school undergoes a compliance audit or program review.

Many institutions have business procedures manuals to cover fiscal matters, such as accounting, budgeting, payroll, personnel, and the like. Due to the broad scope and complexity of financial aid programs, it is also wise to develop a separate financial aid policies and procedures manual. This manual should address policies and procedures that affect all aspects of financial aid administration from the perspectives of both the business office and the financial aid office.

Suggested Topics for Policies and Procedures Manual

In addition to the required written policies listed earlier in this section, a comprehensive policies and procedures manual would include:

- an overview of the institution itself, its mission, its students, and its philosophies;

- descriptions of all federal, state, and institutional financial aid programs, including application procedures, award amounts, and eligibility requirements;
- descriptions of the organizational structures of the business office and the financial aid office;
- a statement of the institution's policy for awarding financial aid (commonly referred to as its "packaging policy");
- procedures for processing financial aid applications;
- procedures used in recordkeeping and reporting;
- a calendar of aid-related activities, including dates and deadlines for students;
- procedures for evaluating business office and financial aid office operations; *and*
- copies of forms, applications, standard correspondence, and other printed materials routinely used by the financial aid office and business office and/or distributed to students.

2.7 Experimental Sites Initiative

Reference:

- HEA Section 487A(b)
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

For schools designated as "**experimental sites**," ED has approved exemptions to a variety of requirements. This initiative enables ED to work collaboratively with schools to find possible ways to reduce the cost, complexity, and burden of administering the Title IV programs to schools and their students. If a school wants to "test" what it considers a better way to administer certain student financial aid statutory and regulatory requirements, it submits a proposal to ED. If approved, the school is exempt from specific requirements while conducting the experiment. More than 135 schools have been designated as experimental sites.

Experimental sites allow schools spend more time helping to:

- improve cash flow for students,
- expedite financial aid delivery, *and*
- improve student service, allowing more time for financial aid counseling and less time on unnecessary paperwork.

The outcome of this experience will help improve Title IV regulations and requirements.

Thirteen areas of experimentation have been approved since the 1995-96 award year. The areas that pertain to fiscal administration are:

*Schools exempt from this requirement because of low cohort-default rates are not considered experimental sites.

- entrance and exit loan counseling,
- multiple disbursement for single-term loans,*
- 30-day delay in loan disbursements for first-time, first-year borrowers,*
- loan fees in cost of attendance,
- loan proration for graduating borrowers,
- FWS time records and payment,
- credit Title IV funds to prior term charges and institutional charges, *and*
- overaward tolerance.

Schools that are interested in participating in the Experimental Sites Initiative should contact ED's Performance Improvement and Procedures Division at 202-708-8197.

2.8 Evaluating Your Management of Student Financial Aid Programs

Schools should evaluate the way they administer Title IV programs on a regular basis. This is a priority item for ED, as well as for the business officer and financial aid administrators. The starting point for strengthening a school's administration of Title IV aid is to evaluate and analyze existing procedures, practices, and polices to determine where improvements are needed.

Evaluating Title IV administration serves many purposes, including:

- ensuring that the school is complying with statutory and regulatory requirements *and*
- identifying school policies and procedures that need updating or revising.

All schools that participate in Title IV financial aid programs must ensure that their student aid operations, procedures, and policies remain in compliance with statutory and regulatory requirements. Failing to do so may have serious consequences:

- *Institutional liabilities*—The school will be required to repay any misused funds to ED.
- *Inequitable student aid distribution*—Students at the school may be awarded less aid or more aid than they are entitled to receive.
- *Possible fines, limitation, suspension, or termination*—If audits and program reviews identify serious instances of noncompliance, inappropriate use of funds, or fraud, the school may be subject to emergency action by ED

and may ultimately lose its eligibility to take part in federal student aid programs.

- *Debarment*—Individuals found responsible for fraud or serious misuse of federal funds may be barred from involvement in *any* federal programs.

Evaluation Methods

The primary methods for evaluating an institution's management of Title IV programs are:

- self-evaluation (Management Assessment/Management Enhancement) *and*
- peer evaluation.

Self-Evaluation (Management Assessment/Management Enhancement)

The Management Assessment is the starting point for any institution's quality improvement initiatives. The Assessment can be used to evaluate and analyze an institution's existing policies, procedures, and practices to determine where improvements are needed. The benefit from this process is that the institution assesses its own systems and identifies areas that need improvement. Institutions are encouraged to use the Management Assessment and Management Enhancement activities on an ongoing basis to attain compliance and to lay the foundation for continuous improvement.

The Management Assessment consists of a comprehensive set of activities and questions designed to help institutions assess current operations in eight major areas in the delivery of student aid. Some of the assessments may require an institution to select a few files to review in order to complete the exercises. Each assessment contains the major functional requirements, as well as suggested assessment steps. The assessments give an institution the opportunity to take a "snapshot" of its current Title IV management. The end result is a better understanding of not only what the requirements are, but how well they are being met at a particular institution or what improvements need to be made in order to meet the requirements as outlined in the regulations. The areas covered include institutional participation, fiscal management, recipient eligibility, award requirements, disbursement, reporting and reconciliation, automation, and other administrative practices. Further, at the end of each section, there are links to management enhancements for areas that need improvement. Since financial aid is an institutional responsibility, some assessments may need to involve several offices on campus (financial aid, business office, bursar) to complete the assessment.

Reference:
- http://ed.gov/offices/OSFAP/QAP

The Management Assessment Tools, developed by ED's Quality Assurance Program, are available to all schools. ED encourages all schools to use the Management Assessment/Management Enhancement Tools which are available on the following Web site: http://www.ed.gov/offices/OSFAP/QAP.

Reference:

- http://www.nasfaa.org

The *Self-Evaluation Guide*, published by the National Association of Student Financial Aid Administrators (NASFAA), can help schools develop comprehensive evaluation systems. This publication provides a step-by-step outline for reviewing financial aid and fiscal policies, procedures, and practices.

Peer Evaluation

Peer evaluation is another technique for obtaining an independent, objective review of an institution's administration of Title IV programs. The peer evaluator can be a financial aid administrator or fiscal officer from another school or a financial aid consultant.

During a peer evaluation, the school obtains an objective assessment of its operation from someone at a similar institution. The person performing the evaluation also benefits by getting a first hand look at how another school manages financial aid programs. Comparing notes and exchanging ideas are methods by which colleagues in financial aid offices and business offices can share their expertise for the good of all.

Other Opportunities for Schools to Advance Quality

Quality Assurance (QA) Program/Quality Analysis Tool (QAT)

Participation in the QA Program allows schools to advance quality in their verification initiatives. Participating QA schools have been given the flexibility to establish their own customized institutional verification program and have been given the regulatory waivers to make that happen. Institutions seeking to participate in any of these areas of flexibility which comprise the Assurance Program (verification, entrance and exit counseling, processing, and disbursing aid) must apply, be accepted, and return a signed amendment to their Title IV Program Participation Agreement.

The **Quality Analysis Tool (QAT)** is a software product that allows schools to determine what student reported items were misreported on the FAFSA and the impact it had on their Expected Family Contribution and Federal Pell Grant eligibility for their entire aid population. Schools will be able to use this information to assist students in the completion of their FAFSAs to ensure they are receiving the aid for which they are entitled. It will provide supportable data that will assist schools in providing better and more accurate service to students. In addition, if a school participates in the Quality Assurance Program, it can use this data to design a meaningful institutional verification process.

The QAT is a software product developed for QA institutions. This product will be made available to all Title IV institutions after it is pilot-tested by QA institutions and needed enhancements are made.

Schools interested in participating in the QA Program should contact ED's QA Team in the Performance Improvement and Procedures Divisions at 202-708-8197.

Direct Loan Quality Assurance Component

It is important to note that the quality assurance (QA) component of the Direct Loan Program is different from the Title IV QA Program. Quality assurance is required for all schools participating in the Direct Loan Program. ED assists these schools in conducting QA activities by providing tools such as the *Direct Loan Quality Assurance Planning Guide (QA Planning Guide)* and the "Tools" submenu in EDExpress. Direct Loan Schools have to maintain documentation about their quality assurance activities in a QA master file. There is no QA reporting requirement.

2.9 Return of Title IV Funds

The Higher Education Amendments of 1998 changed the refund and repayment provisions for Title IV programs. In addition to renaming the process "treatment of Title IV funds when a student withdraws," (it is also known as the **"return of Title IV funds"**), the amendments also revised how to calculate both the earned and unearned amount of Title IV when a student does not complete a period of enrollment or payment period. This section of *The Blue Book* will concentrate on the institutional responsibilities of returning Title IV funds from the fiscal operations standpoint.

Reference:

- HEA, Section 484B
- 34 CFR 668.22
- *Student Financial Aid Handbook*, *Volume 2*: *Institutional Eligibility*
- DCL GEN-00-24

Full implementation of the provisions was required as of October 7, 2000, although institutions could choose to implement the full set of provisions as of October 7, 1998, the date the amendments were enacted.

A school must:

- have established a specific date (no later than October 7, 2000) to implement the new provisions,
- upon implementation, have implemented all of the provisions in their entirety (including the November 1, 1999 final regulations when they were published),
- have applied the provisions to all students (not on a student-by-student basis),
- have advised all currently enrolled and prospective students of the new provisions, *and*
- not have reverted back to the old provisions.

*The period used in the calculation of the period of enrollment for which the student was charged under refunds of Title IV aid was changed to payment period or period of enrollment under return of Title IV funds.

** If the student never actually began attending the school, any Title IV funds disbursed must be handled according to the requirements of 34 CFR 668.21, 682.604 (d)(3) or (4) and 685.303 (b)(3), as applicable.

***A post-withdrawal disbursement is not considered an overpayment.

****These definitions apply only to calculating return of Title IV funds, unless otherwise noted.

Reference:

- 34 CFR 668.164 (g)(2)

Overview of Return of Title IV Funds

When students who were disbursed Title IV aid or could have been disbursed Title IV aid withdraw from school during a payment period or period of enrollment*, they are eligible to receive aid for the percentage of the payment period or period of enrollment that they attended school.** When a student withdraws, the school is required to determine how much Title IV aid the student "earned." If a student has **"unearned" aid** because he or she was disbursed more aid than he or she earned, it must be returned. If a student has "**earned aid**" that he or she has not received, he or she is eligible to receive those funds as a post-withdrawal disbursement.

Note that the return of Title IV funds calculations are done either on a payment period or period of enrollment basis, rather than the "period for which he or she was charged," which was the period used for calculating refunds.

After the school completes the calculation for the treatment of Title IV funds for a student who withdraws, the school then must:

- return any amount of disbursed, unearned Title IV funds to the appropriate Title IV program, and follow the procedures for handling any grant overpayments due from the student, including notifying the student of the overpayment; *and/or*

- initiate, offer, and complete a post-withdrawal disbursement*** of any undisbursed, earned funds to the student, including the school's notification to the student of a post-withdrawal disbursement.

General Definitions****

- *Title IV recipient*—a student who has actually received Title IV funds *or* has met the conditions that entitle the student to a late disbursement.

- *Payment period*—the definition of a "payment period" is the same definition used for other Title IV purposes and found in 34 CFR 668.4. (For example, for an eligible program that has academic terms and measures progress in credit hours, the payment period is the academic term.)

- *Period of enrollment*—the academic period established by the school for which institutional charges are generally assessed (that is, the length of the student's program or academic year).

- *Title IV aid disbursed*—generally, funds that the school credits a student's account with or pays a student or parent directly with:

    - Title IV funds received from ED,

    - FFEL funds received from a lender, *or*

- ♦ institutional funds labeled as Title IV funds in advance of receiving actual Title IV funds.

- ♦ *Title IV aid that could have been disbursed*—funds for which the student has met the conditions of a late disbursement; it does not include Title IV funds the student was not otherwise eligible for at the time he or she withdrew.

- ♦ *Earned aid*—the amount of aid, determined through calculating return of Title IV funds, that the student is *eligible* to receive. This amount may or may not include amounts that are already disbursed.

- ♦ *Unearned aid*—the amount of aid, determined through calculating return of Title IV funds, that the student has not earned. This amount may or may not include amounts that are already disbursed.

- ♦ *Withdrawal date*—the date the student stopped attending the school. This date is determined by the institution according to the regulatory requirements for defining a withdrawal date.*

***Determining withdrawal dates differs depending on whether or not the school is required to take attendance. For additional guidance, see the *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*.**

Institutional Responsibilities

After a student fails to complete the payment period or period of enrollment for which the student received Title IV funds, schools are required to determine whether the student has been disbursed unearned Title IV funds that must be returned or has not received all the Title IV aid he or she earned. A school determines this by completing a return of Title IV funds calculation.

Return of Title IV Funds Calculation**

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

****Examples of the calculation appear in the *Student Financial Aid Handbook.***

ED has developed worksheets to help schools calculate the return of Title IV funds. There are separate worksheets for credit-hour programs and clock-hour programs. The calculation is divided into eight steps:

- ♦ Step 1 – Student's Title IV Aid Information: This step collects information about the student's Title IV grant and loan assistance. It consists of two columns: amount disbursed and net amount that could have been disbursed (for loans, the net amount of the disbursement issued). The calculation requires the school to separately determine the totals of the Title IV aid disbursed plus Title IV aid that could have been disbursed for the payment period or enrollment period.

- ♦ Step 2 – Percentage of Title IV Aid Earned: Using the student's withdrawal date, the school calculates the percentage of the payment period or period of enrollment that the student completed (which is the same as the percentage of Title IV aid earned).

Note: The calculation in Step 2 varies based on whether the program is a clock or credit hour program. For a program that is measured in clock hours, the percentage of Title IV aid is determined based on completed clock hours or, in some cases, scheduled clock hours at the time the student withdrew. For a program that is measured in credit hours, the percentage of Title IV aid is based on completed calendar days. For credit hour programs, scheduled breaks of at least five consecutive days and days on which the student is on an approved leave of absence are excluded from the calculation.

- Step 3 – Amount of Title IV Aid Earned by the Student: The school multiplies the percentage of the payment period or period of enrollment completed by the student (Step 2) by the total amount of aid that was disbursed or that could have been disbursed (Step 1).

- Step 4 – Total Title IV Aid to be Disbursed or Returned: This step is used to determine whether the school must disburse additional aid to the student (called a post-withdrawal disbursement) or whether Title IV aid must be returned. If the student has earned less than he or she received, the Title IV aid must be returned to the appropriate program(s). If the opposite is true, the school completes the post-withdrawal disbursement worksheet to determine how much the student receives.

- Step 5 – Amount of Unearned Title IV Aid Due from the SCHOOL: Using the percentage of *unearned* Title IV aid, the school multiplies this percentage by the total amount of qualified institutional charges.* The lesser of this amount or the total Title IV aid to be returned (Step 4) is entered here.

- Step 6 – Return of Funds by the SCHOOL: A school must return the unearned aid for which the school is responsible (Step 5). The funds must be returned to the appropriate Title IV programs from which the student received aid in the following order**:

  1. Unsubsidized Federal Stafford Loans
  2. Subsidized Federal Stafford Loans
  3. Unsubsidized Federal Direct Stafford Loans
  4. Subsidized Federal Direct Stafford Loans
  5. Federal Perkins Loans
  6. Federal PLUS Loans
  7. Direct PLUS Loans
  8. Federal Pell Grants
  9. Federal Supplemental Educational Opportunity Grant Program

***Qualified institutional charges are detailed in the *Policy Bulletin*, "Calculating Institutional Refunds: What Are Institutional Charges?" (January 7, 1999).**

****Funds should be returned up to the net amount disbursed from each source.**

10. Other grant or loan assistance authorized by Title IV of the HEA

- ♦ Step 7 – Initial Amount of Unearned Title IV Aid Due from the STUDENT: The school subtracts the amount of unearned aid the school is responsible for (Step 5) from the total amount of Title IV aid to be returned (Step 4). If the amount is $0, the student has nothing to repay.

- ♦ Step 8 – Return of Funds by the STUDENT: The school determines the amount to be returned by the student to each Title IV program from which he or she received funds. If the student is to return loan funds, he or she repays that amount according to the terms of the promissory note he or she signed. If the student is to return grant funds, the school must follow the procedures for handling any grant overpayments due from the student, including notifying the student of the overpayment.

New

ED has developed software to assist schools with performing return of Title IV aid calculations, which is known as R2T4 software. When using the software, a school can set up predetermined values for such "standard" things as its tuition, fees, room and board (if contracted through the school), and books and supplies (if they are available only through the school). The software covers these institutional charges for payment periods in various programs of study.

The software, along with reference materials and user guides, can be downloaded from ED's SFA Download Web site.

Reference:
- http://sfadownload.ed.gov

Post-Withdrawal Disbursements

If the school determined through its return of Title IV funds calculation that a student is due a **post-withdrawal disbursement**, the school must notify the student of this fact.

For the school to make a post-withdrawal disbursement, the student must meet the required conditions for a late disbursement*; this must be before the date the student became ineligible.

***Late disbursement requirements are listed in 34 CFR 668.164(g).**

Post-withdrawal disbursements differ from typical late disbursements in the following ways:

- ♦ the school is *required* to make a post-withdrawal disbursement if the school determines the student is otherwise eligible to receive one,

- ♦ the amount of a post-withdrawal disbursement is determined by following the requirements for calculating earned Title IV aid; it does not depend on the amount of incurred educational costs, *and*

- ♦ the post-withdrawal disbursement must be made within 90 days of the date the school determined the student withdrew, not from the date the student became ineligible.

Reference:
- 34 CFR 668.165(b)
- 34 CFR 668.16(d)(1)-(3)

The school may credit a student's school account with post-withdrawal disbursement funds without the student's permission to cover current charges for tuition, fees, and room and board (if the student contracts with the school). However, a student's or parent's (for PLUS Loans) authorization is still required if the post-withdrawal disbursement will be used to cover other current charges for educationally related activities. A school may credit a student's account for minor prior-award-year charges according to cash management requirements.

Earned funds in excess of those credited to a student's school account must be offered to the student. A school is required to notify and offer the student (or parent for PLUS Loan funds), in writing, any amount of post-withdrawal disbursement that is not credited to the student's school account. In the notification, the school must advise the student that he or she has 14 calendar days from the date the school sent the notice to accept the post-withdrawal disbursement. If the student responds after the 14-day period, the school is not *required* to make the post-withdrawal disbursement, but the school may choose to do so. The institution must notify the student or parent of its decision.

The written notification must be sent as soon as possible, but no later than 30 calendar days after the date the school determines the student withdrew.

If a student or parent submits a response within the 14-day time period, accepting all or a portion of a post-withdrawal disbursement, the school must disburse the funds within 90 days of the date the school determined that the student withdrew.

A post-withdrawal disbursement must be made first from grant funds that could have been disbursed, then from other funds that could have been disbursed. The reason: It is in the student's best interest to minimize loan debt.

Grant Overpayments

Once the initial amount of the Title IV grant **overpayment** is determined, it is reduced by 50 percent. The adjusted grant overpayment is the amount the student is responsible to repay.

Within 30 days of the date that the school determined that a student withdrew, a school is required to notify the student that he or she must repay the overpayment. In the notification, the school must:

- inform the student that he or she owes a Title IV grant overpayment;

- state that the student's eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent the notification (or was required to send the notification);

- present the student with the option of taking one of the following actions to enable the student to maintain his or her eligibility for Title IV funds:

  1. repay the overpayment in full to the school,

  2. sign a repayment agreement with ED's **Debt Collection Service (DCS)**, *or*

  3. if the institution chooses to offer an institutional repayment plan (a school does not have to offer this option), sign a repayment agreement with the school.

- notify the student that if he or she doesn't take positive action within the required time period, the overpayment will be reported and referred to NSLDS and ED's DCS; *and*

- tell the student the appropriate person at the school to contact to discuss his or her options.

Students who owe overpayments as a result of withdrawing from school retain their eligibility for Title IV funds for at most 45 days from the earlier of:

- the date the school sends the student notice of the overpayment *or*

- the date the school was required to notify the student of the overpayment.

If no positive action is taken by the student during the 45-day period, the school should immediately report the overpayment to NSLDS.

Repayment Arrangements

To maintain eligibility for Title IV funds, the student has three options for repaying a grant overpayment:

- Pay the overpayment in full to the school.

  If a school receives a payment for an overpayment from a student who has not been referred to ED's DCS, the school should NOT send the payment to ED. Depending on the program type, the school should do the following:

  - If the payment received is for a Pell Grant award (for current award year or prior award year) or for an FSEOG for the current award year, the school should handle the funds according to excess-cash regulations and GAPS procedures.

- For a Pell Grant overpayment, the school should reduce the student's award by entering a negative disbursement in RFMS. The school then adjusts its institutional ledgers and the student's account.

- For an FSEOG overpayment, the school should adjust its institutional ledgers, financial aid records, and the student's school account. The school's FISAP, in turn, will reflect the net award to the student. If the payment is for an FSEOG from a prior award year, the funds should be returned to ED using GAPS procedures.

♦ Enter into a repayment arrangement with the school.

A school is not required to enter into a repayment agreement with a student. If the school chooses to do so and is able, ED encourages the school to negotiate a repayment agreement that includes terms permitting the student to repay the overpayment while maintaining his or her eligibility for Title IV funds. The school's repayment arrangement must provide for complete repayment of the overpayment within two years of the date the school determined the student withdrew. If a school does not choose to offer a repayment option, it is required to report the overpayment information to NSLDS and refer the overpayment to DCS.

♦ Enter into a repayment arrangement with ED.

If a student chooses this option, the school must report the overpayment to NSLDS and then refer the overpayment to ED's DCS.

Then, the school should provide the student with the address, phone number, and email address of ED's DCS.

U.S. Department of Education
Student Financial Assistance Programs
P.O. Box 4222
Iowa City, IA 52245

Phone: 1-800-621-3115

Email: DCS_HELP@ed.gov

Student Responsibilities

If a student has received an overpayment that he or she must repay, he or she should respond to the school's notification and reach an agreement with the school about paying the overpayment.

Failing to respond in a timely manner could result in the student's loss of eligibility for Title IV student financial aid.

Factors Affecting Return of Title IV Funds

Before schools can effectively follow return of Title IV funds policies, they must understand factors that relate to the laws and regulations. These include:

- applying for and disbursing aid,
- whether or not the school is required to take attendance,
- withdrawal date,
- last date of attendance,
- payment period or period of enrollment,
- post-withdrawal disbursements,
- leave of absence,
- institutional charges, *and*
- noninstitutional charges.

Institutional Charges

Reference:

- *Policy Bulletin,* "Calculating Institutional Refunds: What Are Institutional Charges?" (January 7, 1999).

Unless demonstrated otherwise, **institutional charges** are charges assessed by the school for tuition, fees, room and board contracted with the school, and other charges assessed by the school. They are usually assessed for direct educational expenses and are paid directly to the school.

To be classified as an institutional charge, a charge does not have to be charged to all students or be listed as a charge in an enrollment agreement.

Institutional charges may or may not be charged to the student's school account. Conversely, all charges on a student's school account are not necessarily institutional charges.

Books, supplies, and equipment are considered institutional charges if there is no real and reasonable opportunity to buy the books, supplies, or equipment from a source other than the institution.

Noninstitutional Charges

Noninstitutional charges are not owed directly to the school but are related to a student's education. Noninstitutional charges include:

- room and board charges not contracted with the school;
- charges for any required course materials that a school can document are noninstitutional because the student had a real and reasonable opportunity to purchase them elsewhere;
- a charge to a student's account for room charges that are collected by the school but are "passed through" to an unaffiliated entity;
- a charge to a student's account for group health insurance fees, if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal; *and*
- a charge to a student's account for discretional, educationally related expenses, such as:
  - parking or library fines *or*
  - cost of athletic or concert tickets.

Applying and Disbursing Aid

The presumption of the return of aid provisions in the law is that Title IV funds are used to pay institutional charges ahead of all other sources of aid. That is why the requirements look first to the school to repay unearned Title IV funds. This does not mean that a school is required to apply Title IV funds to institutional charges before other aid is applied. However, an institution must return the full amount of Title IV funds for which it is responsible, regardless of whether or not the Title IV funds were used to pay institutional charges.

Withdrawal Date

***Examples of outside entities are a school's accrediting agency or a school's state licensing agency.**

The definition of **withdrawal date**:

- for institutions required to take attendance by an outside entity,* the date of withdrawal is the last date of academic attendance as determined from attendance records.
- for institutions not required to take attendance by an outside entity,* the withdrawal date (determined by the school) is:
  - the date the student began the withdrawal process prescribed by the school;

- the date that the student otherwise provided the school with official notification of the intent to withdraw;

- the date a student began a leave of absence, if the student takes an unapproved leave of absence or does not return from an approved leave of absence; *or*

- the midpoint of the payment period or period of enrollment for which Title IV aid was disbursed or a later date documented by the institution, if a student unofficially withdraws.

If a student both begins the schools' withdrawal process *and* otherwise provides official notification to the school of his or her intent to withdraw, the withdrawal date is the earlier of these two dates.

If a student withdraws after rescinding a previous official notification of withdrawal, the withdrawal date is the original withdrawal date from the original (previous) official notification.

Special rule: The institution may determine the appropriate withdrawal date that is related to a student's special circumstances if the student did not begin the withdrawal process or otherwise notify the institution of the intent to withdraw due to:

- illness,

- accident,

- grievous personal loss, *or*

- other such circumstances beyond the student's control.

Leave of Absence for the Purpose of the Return of Title IV Funds

A student who is granted an approved **leave of absence (LOA)** is not considered to have withdrawn and no return of Title IV funds calculation is required. A leave of absence is an approved LOA if:

- the institution determines there is a reasonable expectation that the student will return to the institution;

- the student is a loan recipient, and the institution explains to the student, before granting the LOA, the effects that the student failing to return from the LOA may have on the student's loan repayment terms, including exhausting some or all of the student's grace period;

- the LOA does not exceed 180 days in length in any 12-month period;

- the LOA does not involve additional charges to the student;

- on the student's return, he or she is permitted to complete the course work he or she began before the LOA;
- the institution has a formal written LOA policy;
- the student followed the institution's policy in requesting an LOA; *and*
- the institution approved the request according to its policy.

If a student does not return to the institution at the end of an approved LOA, the institution is required to calculate a return of Title IV funds based on the date the student left on the approved LOA.

Generally, only one leave of absence may be granted to a student in a 12-month period. However, one additional leave of absence of no more than 30 days may be granted if the institution determines that it is necessary because of unforeseen circumstances (this LOA may not be the student's first LOA). Also, subsequent LOA may be granted for jury duty, military reasons, or circumstances covered under the Family Leave and Medical Act of 1993.

A school may accept one request for multiple leaves of absence from a student when those leaves are all requested for the same reason. For example, a student who will be receiving multiple chemotherapy treatments over the course of the student's enrollment could submit one request to cover the recovery time needed for each session.

The total number of days of all LOAs may not exceed 180 days in any 12-month period.

2.10 Record Maintenance and Retention Requirements

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.24

Institutions participating in Title IV programs collect and generate a significant volume of program-related and student-related information on a yearly basis. Federal regulations specify which of these records must be maintained and the period of time they must be retained. These record maintenance and retention requirements are school-wide, and they include fiscal, financial aid, and general institutional records.

The importance of maintaining complete and consistent records cannot be overemphasized. These records are used to document a school's administrative capability and financial responsibility and are crucial in maintaining eligibility to participate in Title IV programs. As such, schools must make student financial aid program and general records available to auditors and representatives of ED at their request. Records that are poorly maintained or that are not readily available for review can lead to findings, exceptions, and liabilities in the course of an audit or program review.

This section describes the recordkeeping requirements contained in ED regulations. A discussion of the Family Educational Rights and Privacy Act (FERPA) is also included, beginning on page 2-64. FERPA is an important law that protects the privacy of students and families by controlling disclosure of student records to parties outside the institution and by allowing students access to their own school records.

General Student Records

Schools must maintain records related to a student's participation in the Title IV programs. Examples include:

- the student's admission and enrollment status at the institution,
- the program of study and the courses in which the student is enrolled,
- the student's academic progress,
- all financial aid the student receives at the institution,
- the student's prior receipt of financial aid at other institutions, if applicable,
- all return of Title IV funds due or paid to the student, Title IV programs, or FFEL Program lenders,
- the student's job placement (if the school provides a placement service and the student uses that service), *and*
- verification of information reported on the student's financial aid application, if the student is chosen for verification.

For *all* students, not just Title IV recipients, the school must keep records about its admission requirements and the educational qualifications of each student admitted to or enrolled in each eligible program.

Schools must also keep records relating to student consumer-information requirements and to requirements under the Student Right-To-Know (SRK) Act and Campus Security Act.

General Institutional Records

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Schools must maintain all records that relate generally to the institution's eligibility to participate in Title IV programs. Examples include:

- the institution's Program Participation Agreement (PPA), approval letter, and Eligibility and Certification Approval Report (ECAR) sent from ED;
- accrediting agency and licensing agency reviews, approvals, and reports;
- state agency reports;

- audit and program review reports; *and*
- self-evaluation reports.

General Fiscal Records

Reference:
- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- 34 CFR 668.24(b)

A school must keep consistent and accurate records of its use of Title IV funds. Program and fiscal records must show a clear (easily followed) audit trail for expenditures of federal funds. Similarly, these records must clearly show that funds were obtained, managed, disbursed, and returned according to federal regulations. Fiscal records that must be maintained include:

- records of all Title IV program transactions;
- bank statements for accounts containing Title IV funds;
- student school accounts, including (for each enrollment period) institutional charges, cash payments, Title IV payments, cash disbursements, and return of Title IV funds;
- general ledger (control accounts) and related subsidiary ledgers that identify each program transaction and separate those transactions from the institution's other financial transactions;
- Federal Work-Study (FWS) payroll records; *and*
- records that support data that appear on required reports.

Specific fiscal recordkeeping requirements for each Title IV program are discussed in that program's regulations.

Financial Aid Application and Award Records

Reference:
- 34 CFR 668.24(c)

Schools are required to keep extensive records involving student applications for financial aid and financial aid awards. Required records include:

- student applications for financial aid and need analysis documents for all eligible aid applicants who attended the school, *whether or not they received any financial aid*;
- documents establishing a student's financial need and eligibility for Title IV aid;
- financial aid awards made to and accepted or declined by students*;
- cost of attendance information for individual students;
- verification documents, including student (and spouse, if applicable) and parent federal tax returns of students selected for verification;

***Schools have to provide auditors or program reviewers with records of the notifications they sent students about their financial aid awards.**

- records of FFEL Program loans and Direct Loans;
- documentation of required entrance and exit loan counseling for students borrowing under the FFEL, Direct Loan, and Federal Perkins Loan Programs;
- data used to establish a student's full-time or part-time enrollment status and period(s) of enrollment;
- records of returns of Title IV funds due to or paid to students, Title IV program accounts, or FFEL Program lenders; *and*
- required certification statements and any documents used to support or verify those certifications.

Financial Aid Software Records

Reference:
- 34 CFR 668.24 (d)(2) and (3)

Schools should, but are not required to, keep copies of any software used to calculate and help determine a student's eligibility for Title IV aid. If a non-ED software package is needed to access and review records that a school maintains on its students, the school must maintain a copy of that software as well.

Reporting Records

Schools must maintain reports or copies of reports submitted or received in connection with administering Title IV programs, including:

- Fiscal Operations Report and Application to Participate (FISAP),
- Federal Pell Grant Program Electronic Statements of Account (ESOAs),
- Grant Administration and Payment System (GAPS) cash requests,
- reconciliation reports for Title IV programs,
- federal, state, and independent audit reports and school responses*,
- state grant and scholarship award rosters and reports, *and*
- accrediting and licensing agency reports.

***In any case that is still pending, a school is required to keep all student records that pertain to audit or program review findings.**

In addition, schools must maintain records that support the data that appear on all required reports.

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.24(a)

Program Records

Schools must also keep records that relate specifically to each Title IV program, including records of:

- its eligibility to participate in Title IV programs,
- the eligibility of its educational programs for Title IV funds,
- its administration of Title IV programs according to all applicable requirements,
- its financial responsibility,
- information included in any application for Title IV funds,
- its disbursement and delivery of Title IV funds,
- the eligibility of any additional location that offers at least 50 percent of the program and offers Title IV funds, *and*
- its admission policy.

Reference:
- 34 CFR 668.24
- 34 CFR 690.82

***The ISIR must be maintained in the electronic format in which it was originally received from ED. The SAR must be maintained in its original, hard-copy format or an imaged-media format.**

Federal Pell Grant Program

For the Federal Pell Grant Program, the records a school must maintain include, but are not limited to:

- a valid Institutional Student Information Record (ISIR) or Student Aid Report (SAR) for each student applying for a Federal Pell Grant,
- records of the eligibility of each enrolled student for whom the school has an ISIR* or SAR,
- the name and Social Security number of and the amount paid to each student,
- the amount and date of any overpayment that is restored to the program account,
- each student's cost of attendance,
- how each student's full-time or part-time enrollment status was determined, *and*
- records of each student's enrollment period.

Reference:
- 34 CFR 668.24
- 34 CFR 676.19

FSEOG Program

For the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, the records a school must maintain include, but are not limited to:

- program records that are reconciled at least monthly,
- each student's school account and status,
- the eligibility of each student assisted under the program and how each student's need was met,
- all FSEOG applications for those students reported on the FISAP,
- all records supporting the school's application for FSEOG funds, *and*
- a noncash-contribution record to document payment of the institution's share (nonfederal share) of grants to students.

Reference:
- 34 CFR 668.24
- 34 CFR 674.19

Federal Perkins Loan Program

For the Federal Perkins Loan Program, the records a school must maintain include, but are not limited to:

- program and fiscal records that are reconciled at least monthly;
- each student's school account and status;
- the eligibility of each student assisted under the program and how each student's need was met;
- original promissory notes and repayment schedules in a locked, fireproof container until the loans are satisfied or until they are assigned to ED for collection, or as long as the documents are needed to enforce the loan obligation;
- all loan applications for those students reported on the FISAP;
- all records supporting the school's application for funds under the Federal Perkins Loan Program;
- a repayment history for each borrower that shows the date and amount of each repayment over the life of the loan and that indicates the amount of each repayment credited to principal, interest, collection costs, and penalty or late charges;
- documentation of the date, nature, and result of each contact with the borrower or endorser in collecting an overdue loan, including copies of all

correspondence to or from the borrower and endorser (except bills, routine overdue notices, and routine form letters);

- payment records (including cancellation and deferment requests);
- collection agency reports (if collection attempts were made);
- litigation records (if litigation occurred); *and*
- information collected at entrance and exit loan counseling conducted for the borrower.

Federal Work-Study Program

For the Federal Work-Study (FWS) Program, the records a school must maintain include, but are not limited to:

Reference:
- 34 CFR 668.24
- 34 CFR 675.19

- program records that:
  - are reconciled at least monthly,
  - identify each student's school account and status,
  - show the eligibility of each student assisted under the program, *and*
  - show how each student's need was met;
- all employment records for those students reported on the FISAP;
- all records supporting the school's application for FWS funds;
- a certification by the student's supervisor, an official of the institution, or off-campus employer, that each student has worked and earned the amount paid*;

> **Schools now have the option to allow electronic certification:*
> - *of the hours a student worked* and
> - *that the amount paid was earned by the student.*
>
> *Schools can still require supervisors to sign paper certifications.*

- a time sheet showing the hours each student worked in clock-time sequence for students paid on an hourly basis, or the total hours worked each day,
- a payroll voucher containing sufficient information to support all payroll disbursements, *and*
- a noncash-contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment.

Reference:
- 34 CFR 668.24
- 34 CFR 682.610

Federal Family Education Loan Program

For the Federal Family Education Loan (FFEL) Program, the records a school must maintain include, but are not limited to:

- a copy of the loan certification or data electronically submitted to the lender, that includes the amount of the loan and the loan period for which the loan was intended;
- the data used to construct an individual student's budget or the school's itemized standard budget used to calculate students' estimated costs of attendance;
- the sources and amounts of financial aid available to the student that the school used to determine the student's estimated financial aid for the loan period;
- the amount of the student's tuition and fees paid for the loan period and the date the student paid the tuition and fees;
- the amount and basis of the calculation of any return of Title IV funds paid to or on behalf of a student;
- the data used to determine the student's Expected Family Contribution (EFC) and the corresponding certification by the school to the lender, for a subsidized Federal Stafford Loan for which the borrower receives an interest subsidy;
- the date of each disbursement of the loan and the amount of that disbursement;
- the date the school endorsed each loan check;
- the date(s) loan proceeds were delivered by the school to the student;
- a copy of the student's (or parent's, for a PLUS Loan) written authorization for initial and subsequent disbursements for loans delivered by electronic funds transfer (EFT) or master check and for which the school has no authorization on the loan application;
- a description of any master promissory note (MPN) confirmation process or processes in effect for each academic year in which the school makes second or subsequent loans under an MPN*;
- documentation that the student received entrance and exit loan counseling; *and*
- litigation records (if litigation occurred).

***The description of the MPN confirmation process(es) need not be included in individual borrower files. Ideally, it should be included in a student handbook or other publication that explains the school's financial aid policies to students. This information must be kept indefinitely.**

In addition, schools must maintain any other records that document their compliance with any applicable loan-related requirements.

Federal Direct Loan Program

For the Federal Direct Loan Program, the records a school must maintain include, but are not limited to:

Reference:
- 34 CFR 668.24
- 34 CFR 685.309

- ♦ application data submitted to ED;
- ♦ the amount of the loan and the loan period;
- ♦ the amount and date of tuition and fees paid for the loan period;
- ♦ the data in an individual student budget or the school's itemized standard budget that were used in calculating the student's estimated cost of attendance;
- ♦ the sources and amounts of financial aid available to the student that the school used to determine the student's estimated financial aid for the loan period;
- ♦ the cost of attendance used to determine the student's loan;
- ♦ the amount and basis of the calculation of any return of Title IV funds paid to or on behalf of a student;
- ♦ the data used to determine the student's EFC, for a subsidized Direct Loan;
- ♦ the date of each disbursement of the loan, for a subsidized or unsubsidized Direct Loan;
- ♦ the date of each disbursement of the loan and the amount of the disbursement;
- ♦ a description of the master promissory note (MPN) confirmation process or processes in effect for each academic year in which the school makes second or subsequent loans under an MPN*;
- ♦ the borrower's information collected at the exit interview and documentation that confirms that the student received entrance and exit loan counseling;
- ♦ all records involved in any loan, claim, or expenditure questioned by a federal audit until the resolution of any audit questions;
- ♦ program records that are reconciled at least monthly;
- ♦ each student's account and status; *and*
- ♦ the eligibility of each student assisted under the program and how each student's need was met.

***The description of the MPN confirmation process(es) need not be included in individual borrower files. Ideally, it should be included in a student handbook or other publication that explains the school's financial aid policies to students. This information must be kept indefinitely.**

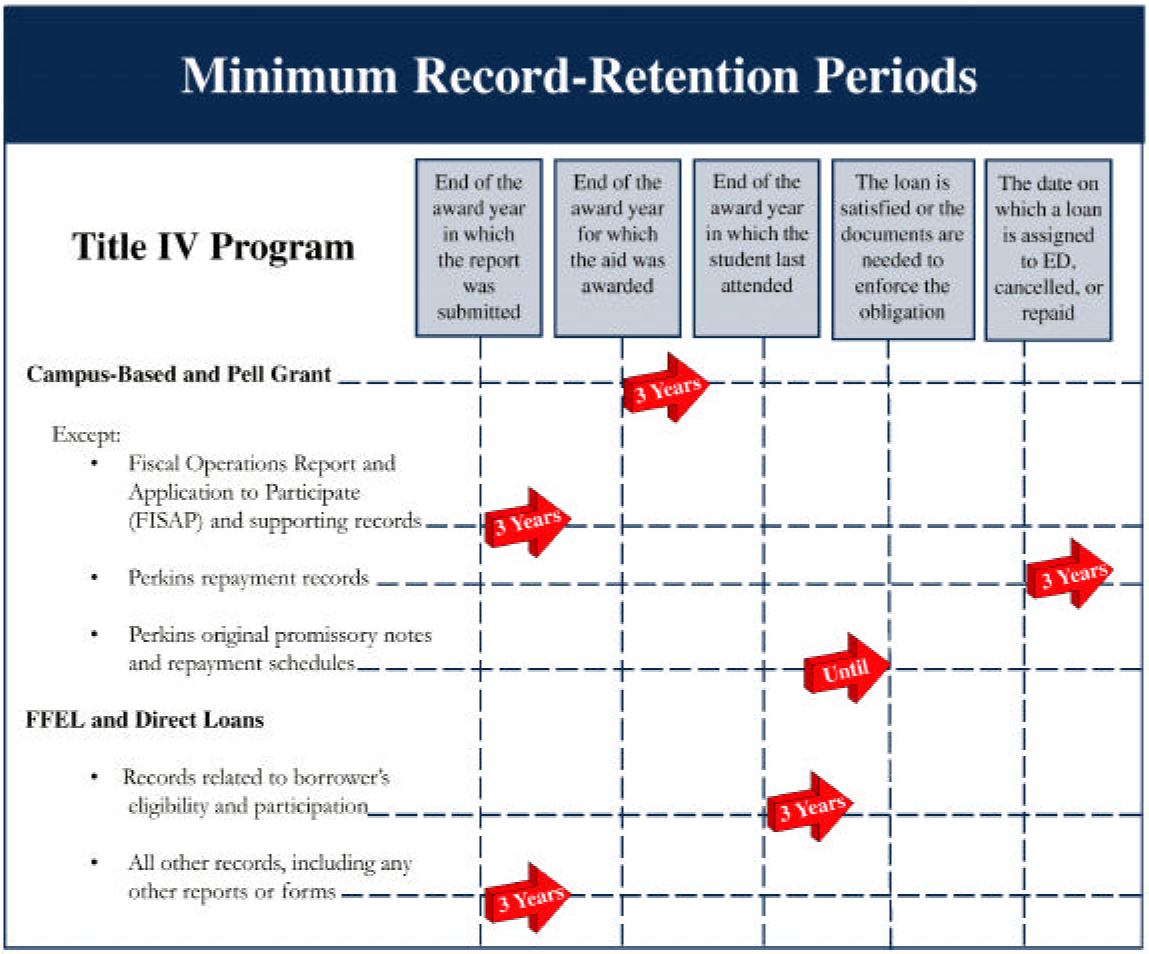
Reference:
- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- 34 CFR 668.24(e)

***If the record is involved in any loan, claim, or expenditure questioned by a Title IV program audit, program review, investigation or other review, the record must also be maintained until the issue is resolved.**

Record-Retention Requirements

Schools must retain all required records for a minimum of three years.* However, all records do not have the same starting point. In addition, some states require schools to retain such records for longer periods.

The chart below shows the required minimum retention period for records under various Title IV programs.



Note: An institution must keep all records involved in any loan, claim, or expenditure questioned by a Title IV HEA audit or program review, investigation, or other review until the later of (a) the resolution of that questioned loan, claim, or expenditure or (b) the end of the retention period that applies to the record. In addition, the description of the MPN confirmation process must be kept indefinitely.

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.24(d)

*In the case of Perkins Loans, the promissory notes and repayment schedules must be maintained in their hard-copy format only.**

Reference:
- 34 CFR 668.24(d)(3)(ii)

****The original format is in the form of a magnetic tape, cartridge, or as it was archived using EDExpress software.**

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.24(f)

Record Maintenance for Paper and Imaged Formats

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in hard copy, microform, computer file, optical disk, CD-ROM, or other media form.

Regardless of the format used to keep a record, all records (except ISIRs, see the special requirements section below) must be retrievable in a coherent hard-copy format.

- A coherent hard-copy format could be, for example, an easily understandable printout of a computer file.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard-copy format or in an imaged-media format.*

- A school may maintain a record in an imaged-media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Special Requirements

Special maintenance and availability requirements apply to SARs and ISIRs because it is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes.

- The SAR must be available in its original, hard-copy format or in an imaged-media format.
- The ISIR, an electronic record, must be maintained and available in its original format,** that is, as ED supplied it to the school.

A school that uses EDExpress software has the ability to maintain ISIR data by archiving the data to a disk or other computer format.

Records Examination

Schools must make their records available to ED at an institutional location that ED designates. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits its Title IV funds.

A school and its third-party servicer must cooperate with the agencies or individuals conducting audits, program reviews, investigations, or other reviews authorized by law. This cooperation must be extended to the following individuals and their authorized representatives:

- independent auditors,
- the U.S. Secretary of Education,
- ED's Inspector General,
- the Comptroller General of the United States,
- any guaranty agency in whose program the school participates, *and*
- the school's accrediting agency.

In the review process, a school or its third-party servicer must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs for examination and copying.

A school or its third-party servicer must also provide reasonable access to all personnel associated with the school's or servicer's administration of federal student financial aid programs so any of the agents listed above may obtain relevant information. A school or its third-party servicer has not provided reasonable access if it:

- refuses to allow its personnel to supply all relevant information,
- permits interviews with those personnel only if the school's or servicer's management is present, *or*
- permits interviews with those personnel only if the interviews are tape recorded by the school or servicer.

If ED requests it, a school or its third-party servicer must promptly provide any information about the last known address, full name, telephone number, enrollment information, employer, and employer address of Title IV fund recipients who attend or attended the school. A school must also provide this information, on request, to a lender or guaranty agency in the case of a FFEL Program borrower.

Reference:
- 34 CFR 668.24(d)(4)(i) and (ii)

A school must still provide for the retention of required records, and for access to those records, if the school:

- stops providing educational programs,
- is terminated or suspended from participating in a Title IV program(s),

- undergoes a change of ownership that results in a change in control, *or*
- closes.

These records must be accessible for inspection and copying by ED or ED's authorized representative *and* the appropriate guaranty agency (if applicable).

Disclosing Student Information

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

The Family Education Rights and Privacy Act of 1974 (FERPA) sets certain conditions on disclosing personal information from records kept by schools. The law pertains to all students attending these schools, not just Title IV recipients. In addition, federal regulations issued under FERPA apply to all school records, including admissions records, academic records, and financial aid records.

Reference:
- 34 CFR Part 99

FERPA excludes from the definition of "education records" (and from the restrictions and rights of access under FERPA) records that are maintained by a law enforcement unit of an education agency or institution that were created by that unit for the purpose of law enforcement.

School Requirements

Under FERPA, a school is required to:

- develop a written policy listing the types and locations of education records maintained by the school and stating the procedures for students and parents to review the records,
- notify students and parents of their rights with respect to education records, *and*
- document a student's file each time personally identifiable information is disclosed to a person other than the student.

Student Rights

A student has the right to:

- inspect and review his or her education records,
- request an amendment to the records, *and*
- if the request for an amendment is denied, to request a hearing to challenge the contents of the education records on the grounds that the records are inaccurate, misleading, or violate the student's rights.

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Disclosure to Third Parties

FERPA regulations also govern disclosing student information to parties other than the student. There are several conditions under which personally identifiable information may be disclosed without the student's prior written consent. Some of these conditions are of interest to the fiscal officer:

- Disclosure may be made to authorized representatives of ED, ED's Office of Inspector General, or state and local education authorities. These officials may have access to records as part of an audit or program review, or to ensure compliance with Title IV program requirements.
- Disclosure may be made if it is in connection with financial aid that the student received or applied for. Information may be released only if it is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.
- Disclosure may be made to the student's parent, if the student is a dependent of the parent as defined by the Internal Revenue Service.
- Disclosure may be made to organizations that are conducting studies concerning administration of student aid programs on behalf of educational agencies or institutions.

Recording Disclosures

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This disclosure record must be maintained as long as the records themselves are maintained.

Record-Management Procedures

It is essential that schools maintain records related to Title IV programs in an organized manner. Good record-management procedures assist institutions in carrying out daily functions associated with administering Title IV funds, filing required reports in an accurate and timely manner, and maintaining a clear audit trail.

One important aspect of record management is careful and orderly filing of original records. To do this, many schools establish individual, cumulative student aid files, separating documents within each student's file on the basis of award year.

Clear Audit Trail

Although it is important to keep original records used in processing financial aid, schools must also have a recordkeeping system that traces transactions involving those records. A school's recordkeeping procedures should allow for establishing and maintaining a clear (easily followed) audit trail. A clear audit trail is defined as maintaining required documentation that supports each transaction involving receiving or expending federal funds.

A school may maintain records in a manual, paper-based system or in a computer database, or it may use a combination of these methods. For example, a school that uses an automated system to manage records might also maintain paper files that contain original documents needed to support the electronic information stored in a database. As imaging technology becomes more available, schools might choose to maintain electronically imaged documents instead of paper originals.

In-House Control Documents

The in-house control documents a school uses to manage records can vary on the basis of institutional policies and procedures. Some commonly used control documents, whether paper or electronic, include:

- a communication log that summarizes all in-person or telephone contacts with a student or about a student's financial aid;
- a document-control checklist that monitors documents received against documents needed to process a student's financial aid;
- an award-packaging log that shows how and when a student's award was packaged and by whom;
- a loan-status log for each federal student loan program that tracks loan applications, disbursements, entrance and exit loan counseling, refunds, repayments, and collection activities (if applicable); *and*
- a student master record that contains financial aid information for a student for each award year.

Student Master Record

A student master record is used to record basic information relating to a student's application for and receipt of financial aid. The student master record typically contains:

- demographic information, such as name, address, date of birth, and citizenship status;

- enrollment information, such as admission status, enrollment dates, credits attempted and completed, and grade point average;
- need analysis information, such as Expected Family Contribution (EFC), family income, and cost of attendance (COA);
- award information, such as amounts and sources of funds awarded and whether awards were accepted or declined; *and*
- student account information, such as tuition and fee charges assessed, cash payments made by a student or parent, financial aid disbursements, and return of Title IV funds.

Appendix F—Ratio Methodology for Proprietary Institutions

Section 1: Ratios and Ratio Terms

$$\text{Primary Reserve Ratio} = \frac{\text{Adjusted Equity}}{\text{Total Expenses}}$$

$$\text{Equity Ratio} = \frac{\text{Modified Equity}}{\text{Modified Assets}}$$

$$\text{Net-Income Ratio} = \frac{\text{Income Before Taxes}}{\text{Total Revenues}}$$

Definitions:

- **Adjusted Equity** *equals* (total owner's equity) *minus* (intangible assets) *minus* (unsecured related-party receivables) *minus* (net property, plant, and equipment)* *plus* (post-employment and retirement liabilities) *plus* (all debt obtained for long-term purposes).**
- **Total Expenses** excludes income tax, discontinued operations, extraordinary losses, or change in accounting principle.
- **Modified Equity** *equals* (total owner's equity) *minus* (intangible assets) *minus* (unsecured related-party receivables).
- **Modified Assets** *equals* (total assets) *minus* (intangible assets) *minus* (unsecured related-party receivables).
- **Income Before Taxes** is taken directly from the audited financial statement.
- **Total Pre-Tax Revenues** *equals* (total operating revenues) *plus* (non-operating revenue and gains). Investment gains should be recorded net of investment losses. No revenues shown after income taxes (for example, discontinued operations, extraordinary gains, or change in accounting principle) on the income statement should be excluded.

* The value of plant, property, and equipment is net of accumulated depreciation, including capitalized lease assets.

** The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant, and equipment.

Source: 34 CFR 668 Subpart K.

Section 2, Calculating the Ratios from the Balance Sheet and Income Statement

Balance Sheet

Line		
1	Cash	$ 190,000
2	Accounts Receivable	1,010,000
3	Prepaid Expenses	150,000
4	Inventoried	130,000
5	Note Receivable from Affiliate	200,000
6	Investments	330,000
7	Total Current Assets	2,010,000
8	Property and Equipment, net	500,000
9	Amount Due from Owner	170,000
10	Goodwill	80,000
11	Organization Costs	70,000
12	Deposits	60,000
13	Total Assets	2,890,000
14	Accounts Payable	200,000
15	Accrued Expenses	330,000
16	Current Portion of Long-Term Debt	120,000
17	Deferred Revenue	650,000
18	Total Current Liabilities	1,300,000
19	Long-Term Debt, net of Current Portion	330,000
20	Total Liabilities	1,630,000
21	Contributed Capital	440,000
22	Retained Earnings	820,000
23	Total Owner's Equity	1,260,000
24	Total Liabilities and Owner's Equity	2,890,000

Statement of Income and Retained Earnings

Line		
25	Operating Income	$ 9,700,000
26	Non-Operating Income	300,000
27	Total Income	10,000,000
28	Cost of Goods Sold	6,800,000
29	Administrative Expenses	2,600,000
30	Depreciation Expense	60,000
31	Interest Expense	40,000
32	Total Expenses	9,500,000
33	Other: Gain on Sale of Investments	10,000
34	Net Income Before Taxes	510,000
35	Federal Income Taxes	53,000
36	Net Income After Taxes	357,000
37	Extraordinary Loss, net of Tax	800,000
38	Net Income	(443,000)
39	Retained Earnings, Beginning of year	1,263,000
22	Total Expenses	820,000

Primary Reserve Ratio = (lines) $\frac{23-5-9-10-8+(16+19)^{*}}{32} = \frac{\$\ 760{,}000}{9{,}500{,}000} = 0.080$

Equity Ratio = (lines) $\frac{23-5-9-10}{13-5-9-10} = \frac{\$\ 810{,}000}{\$\ 2{,}440{,}000} = 0.332$

Net Income Ratio = (lines) $\frac{34}{27+33} = \frac{\$\ 510{,}000}{\$\ 10{,}010{,}000} = 0.051$

*Long-Term Debt (lines 16 + 19) cannot exceed Property and Equipment (line 8) in the formula.

Source: 34 CFR 668 Subpart K.

Appendix F—Ratio Methodology for Proprietary Institutions

Section 3: Calculating the Composite Score

Step 1: Calculate the strength factor score for each ratio, by using the following algorithms:

	Example (for Proprietary Institutions)
•Primary Reserve strength factor score *equals* 20 *multiplied by* Primary Reserve Ratio result:	20 x 0.080 = 1.600
•Equity strength factor score *equals* 6 *multiplied by* Equity Ratio result:	6 x 0.332 = 1.992
•Net Income strength factor score *equals* 1 *plus* (33.3 *multiplied by* Net-Income Ratio result):	1 + (33.3 x 0.051) = 2.698

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3.
If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.

	Example (for Proprietary Institutions)
•Primary Reserve weighted score *equals* 30% *multiplied by* Primary Reserve strength factor score:	0.30 x 1.600 = 0.480
•Equity weighted score *equals* 40% *multiplied by* Equity strength factor score:	0.40 x 1.992 = 0.797
•Net Income weighted score *equals* 30% *multiplied by* Net Income strength factor score:	0.30 x 2.698 x = 0.809
•Composite score *equals* sum of all weighted scores:	0.480 + 0.797 + 0.809 = 2.086
•Round the composite score to one digit after the decimal point to determine the final score:	2.1

Source: 34 CFR 668 Subpart K.

Appendix G—Ratio Methodology for Private Nonprofit Institutions

Section 1: Ratios and Ratio Terms

$$\text{Primary Reserve Ratio} = \frac{\text{Expendable Net Assets}}{\text{Total Expenses}}$$

$$\text{Equity Ratio} = \frac{\text{Modified Net Assets}}{\text{Modified Assets}}$$

$$\text{Net-Income Ratio} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenue}}$$

Definitions:

- **Expendable Net Assets** *equals* (unrestricted net assets) *plus* (temporarily restricted net assets) *minus* (annuities, term endowments, and life-income funds that are temporarily restricted) *minus* (intangible assets) *minus* (net property, plant, and equipment)* *plus* (post-employment and retirement liabilities) *plus* (all debt obtained for long-term purposes).**
- **Total Expenses** is the total unrestricted expenses taken directly from the audited financial statement.
- **Modified Net Assets** *equals* (unrestricted net assets) *plus* (temporarily restricted net assets) *plus* permanently restricted net assets) *minus* (intangible assets) *minus* (unsecured related-party receivables).
- **Modified Assets** *equals* (total assets) *minus* (intangible assets) *minus* (unsecured related-party receivables).
- **Change in Unrestricted Net Assets** is taken directly from the audited financial statement.
- **Total Unrestricted Revenue** is taken directly from the audited financial statement. (This amount includes net assets released from restriction during the fiscal year.)

  * The value of plant, property, and equipment is net of accumulated depreciation, including capitalized lease assets.

  ** The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant, and equipment.

Source: 34 CFR 668 Subpart K.

Section 2, Calculating the Ratios from the Balance Sheet and Statement of Activities

Balance Sheet

Line		
1	Cash and Cash Equivalents	$ 1,000,000
2	Accounts Receivable	6,000,000
3	Prepaid Expenses	1,500,000
4	Inventories	500,000
5	Contributions Receivable	2,000,000
6	Student Loans Receivable	8,000,000
7	Investments	6,000,000
8	Property and Equipment, net	50,000,000
9	Bond Insurance Costs	720,000
10	Goodwill	500,000
11	Deposits	20,000
12	Total Assets	76,240,000
13	Line of Credit	500,000
14	Accounts Payable	2,000,000
15	Accrued Expenses	3,500,000
16	Deferred Revenue	650,000
17	Post-Retirement Benefits Liability	6,600,000
18	Bonds Payable**	36,000,000
19	Total Liabilities	49,250,000
20	Unrestricted Net Assets	15,190,000
21	Annuities	300,000
22	John Doe Scholarship Fund	2,500,000
23	Total Temp. Restricted Net Assets	2,800,000
24	Permanent Restr. Net Assets	9,000,000
25	Total Net Assets	26,990,000
26	Total Liabilities & Net Assets	76,240,000

Statement of Activities

Line		a Unrestricted	b Temporarily Restricted	c Permanently Restricted	d Total
27	Tuition and Fees	$45,000,000			$ 45,000,000
28	Contributions	1,200,000	$ 300,000	$ 120,000	1,620,000
29	Auxiliary Enterprises	5,500,000			5,500,000
30	Net Assets Released from Restrictions	200,000			200,000
31	Total Revenue	51,900,000	300,000	120,000	52,320,000
32	Operating Expenses	38,000,000			38,000,000
33	Depreciation	5,000,000			5,000,000
34	Interest Expense	2,880,000			2,880,000
35	Auxiliary Enterprises	5,200,000			5,200,000
36	Non-Operating Expenses	900,000			900,000
37	Net Assets Released from Restrictions		200,000		200,000
38	Total Expenses	51,980,000	200,000		52,180,000
39	Change in Net Assets	(80,000)*	100,000	120,000	140,000
40	Net Assets at beginning of year	15,270,000	2,700,000	8,880,000	26,850,000
41	Net Assets at end of year	15,190,000	2,800,000	9,000,000	26,990,000

Primary Reserve Ratio = (lines) $\frac{20+23-21-10-8+18^{**}+17}{38a} = \frac{\$\ 9{,}790{,}000}{\$\ 51{,}980{,}000} = 0.188$

Equity Ratio = (lines) $\frac{25-10}{12-10} = \frac{\$\ 26{,}490{,}000}{\$\ 75{,}740{,}000} = 0.350$

Net Income Ration = (lines) $\frac{39a}{31a} = \frac{\$\ (80{,}000)}{\$\ 51{,}900{,}000} = -0.0015$

*In accounting statements, parentheses denote negative numbers [i.e., (80,000) equals negative 80,000].

**Long-term Debt (line 18) cannot exceed Property and Equipment, net (line 8) in this formula.

Source: 34 CFR 668 Subpart K

Appendix G—Ratio Methodology for Private Nonprofit Institutions

Section 3: Calculating the Composite Score

Step 1: Calculate the strength factor score for each ratio, by using the following algorithms:

<u>Example (for Private, Nonprofit Institutions)</u>

•Primary Reserve strength factor score *equals* 10 *multiplied by* Primary Reserve Ratio result: **10 x 0.188 = 1.880**

•Equity strength factor score *equals* 6 *multiplied by* Equity Ratio result: **6 x 0.350 = 2.100**

•Because the Net-Income Ratio is negative, the algorithm for negative net income is used—
Net Income strength factor score *equals* 1 *plus* (25 *multiplied by* Net-Income Ratio result): **1 + (25 x -0.0015) = 0.963**

(Note: If the Net-Income Ratio result is positive, the following algorithm is used, Net Income strength factor score *equals* 1 *plus* (50 *plus* Net-Income Ratio result)—If the Net-Income Ratio result is 0, the Net Income strength factor score is 1).

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3.
If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.

<u>Example (for Private, Nonprofit Institutions)</u>

•Primary Reserve weighted score *equals* 40% *multiplied by* Primary Reserve strength factor score: **0.40 x 1.880 = 0.752**

•Equity weighted score *equals* 40% *multiplied by* Equity strength factor score: **0.40 x 2.100 = 0.840**

•Net Income weighted score *equals* 20% *multiplied by* Net Income strength factor score: **0.20 x 0.963 x = 0.193**

•Composite score *equals* sum of all weighted scores: **.752 + 0.840 + 0.193 = 1.785**

•Round the composite score to one digit after the decimal point to determine the final score: **1.8**

Source: 34 CFR 668 Subpart K.